S.E.C. RULE 15c2-12
ANNUAL REPORT
FISCAL YEAR ENDED JUNE 30, 2005

The State of California (the "State"), acting by and through the State Treasurer of the State of California, hereby provides its annual report for the fiscal year ended June 30, 2005 in connection with the following:

Bond Issues

State Public Works Board of the State of California Lease Revenue Bonds (the "Bonds") as listed on the attached Exhibit 1. Also listed on Exhibit 1 are the dates of the Continuing Disclosure Agreements (the "Disclosure Agreements") executed by the State in connection with each issue of the Bonds and the dated dates for each issue.

Note: The base CUSIP numbers provided in Exhibit 1 are for the convenience of Bondholders. The State Treasurer's Office is not responsible for the accuracy or completeness of such numbers.

Annual Report

The State's "annual report" (as defined in the Disclosure Agreements for the Bonds) for the fiscal year ended June 30, 2005 consists of:

1. Unaudited Basic Financial Statements of the State http://www.treasurer.ca.gov/financial/2005_unaudited_basic.pdf. The financial statements conform to the Governmental Accounting Standards Board ("GASB") accounting principles generally accepted in the United States of America. The components of the Unaudited Basic Financial Statements are Government-Wide Financial Statements, Fund Financial Statements and Notes to the Financial Statements. The Audited Basic Financial Statements for the State are expected to be available prior to May 1, 2006 and when available will be promptly filed with each of the Nationally Recognized Municipal Securities Information Repositories.

2. Financial information contained in Appendix A of the Official Statement, dated March 1, 2006, with respect to State of California Various Purpose General Obligation Bonds (the "OS"), which information is incorporated herein by reference. A copy of the OS has previously been filed with each of the Nationally Recognized Municipal Securities Information Repositories and is available from any of them.

3. Information relating to the outstanding debt of the State Public Works Board as set forth in Exhibit 2 attached hereto.

4. Financial information relating to The Regents of the University of California for the fiscal year ended June 30, 2005, including the table entitled "Obligations Issued and Outstanding" as set forth in Exhibit 3 attached hereto.

5. Table entitled "University of California Current Funds Expenditures and Resources Utilized," is no longer available from The Regents of the University of California. The University's financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB). This change in standards has resulted in a revision of the financial tables and statements that are required for the Annual Report. During 2002, the University adopted GASB Statement *No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.* The information contained in the table entitled "University of California Current Funds Expenditures and Resources Utilized," is available from various other tables in the Annual Financial Report contained in Exhibit 4 attached hereto. This includes, page 2, Facts in Brief (Includes Operating Expenses by Function), page 44, The University's Results of Operations, page 68 Statement of Revenues, Expenses and Changes in Net Assets, and page 115 Campus Facts in Brief 2005. The Regents of the University of California's most recent audited financials are also contained in the Annual Financial Report.

6. Information relating to the Governmental Cost Funds Transportation Funds Statement of Operations and Governmental Cost Funds Transportation Funds Balance Sheet as set forth in Exhibit 5 attached hereto.

7. The Board confirms that the insurance required by each of the Facility Leases relating to each issue of the Bonds listed on the attached Exhibit 1 is in effect.

Other Matters

This annual report is provided solely for purposes of the Disclosure Agreements. The filing of this report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the State or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this report relates (other than as referred to in this report), or that no other information exists, which may have a bearing on the State's financial condition, the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this annual report should be construed as a prediction or representation about future financial performance of the State.

The information provided herein may relate to bonds or other obligations of the Board in addition to the ones listed above.

Dated: March 30, 2006

State of California

Original signed by Katie Carroll
Deputy State Treasurer
For State Treasurer, Philip Angelides

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 2005 Series E (Various Community College Projects)	10/1/2005	10/20/2005
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2005 Series J (California State Prison-Corcoran II)	11/1/2005	11/16/2005
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2005 Series H (California State Prison-Ser H Madera)	11/1/2005	11/16/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2005 Series G (Various Projects)	10/1/2005	10/20/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2005 Series A (Butterfield State Office Complex)	4/1/2005	4/12/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services - Food and Agriculture) 2005 Series F	10/1/2005	10/20/2005
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Justice) Series 2005 Series I (Department of Justice Building)	11/1/2005	11/16/2005
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Health Services) 2005 Series K (Richmond Lab)	11/1/2005	11/16/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of Health Services) 2005 Series B (Richmond Lab Phase III Office Building)	4/1/2005	4/12/2005
State Public Works Board of the State of California Lease Revenue Bonds (Department of Forestry and Fire Protection) 2004 Series C (Various Forestry Projects)	12/1/2004	12/2/2004
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 2004 Series B (Various Community College Projects)	4/1/2004	4/21/2004
State Public Works Board of the State of California Lease Revenue Bonds (Department of Mental Health) 2004 Series A (Coalinga State Hospital)	4/1/2004	4/21/2004

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2004 Series E (California State Prison-Lassen County, Susanville)	4/1/2004	4/7/2004
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2004 Series D (California State Prison-Fresno County, Coalinga)	4/1/2004	4/7/2004
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2003 Series C (California State Prison - Kern County at Delano II)	12/1/2003	12/2/2003
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2003 Series D (Butterfield State Office Complex)	12/1/2003	12/2/2003
State Public Works Board of the State of California Lease Revenue Bonds (Department of Mental Health) 2003 Series B (Patton State Hospital EB Building Improvements)	4/1/2003	4/9/2003
State Public Works Board of the State of California Lease Revenue Bonds (Department of the Youth Authority) 2002 Series B (Various Correctional Projects)	12/1/2002	12/5/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2002 Series A (Capitol East End Complex - Blocks 171-174 & 225)	12/1/2002	12/5/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2002 Series C (Mission Valley State Office Building)	3/1/2002	3/13/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2002 Series B (Teale Data Center Project)	3/1/2002	3/13/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2002 Series A (Ten Administrative Segregation Housing Units)	3/1/2002	3/13/2002
State Public Works Board of the State of California Lease Revenue Bonds (Department of the Youth Authority) 2001 Series B (Various Correctional Projects)	12/1/2001	12/5/2001

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Bonds (Department of Mental Health) 2001 Series A (Hospital Addition at Atascadero State Hospital)	12/1/2001	12/5/2001
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2001 Series B (California Substance Abuse Treatment Facility and State Prison at Corcoran (Corcoran II))	3/1/2001	3/28/2001
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 2001 Series A (California State Prison - Lassen County, Susanville)	3/1/2001	3/28/2001
State Public Works Board of the State of California Lease Revenue Bonds (Department of General Services) 2000 Series E (Block 224 State Parking Garage)	11/1/2000	12/6/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Justice) Series 2000 Series D (Various Replacement Laboratory Projects)	11/1/2000	12/6/2000
State Public Works Board of the State of California Lease Revenue Bonds (California Highway Patrol) 2000 Series C (Various Are Office Projects)	11/1/2000	12/6/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Youth Authority) 2000 Series B (Various Correctional Projects)	6/1/2000	6/28/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 2000 Series A (Various Correctional Projects)	6/1/2000	6/28/2000
State Public Works Board of the State of California Lease Revenue Bonds (Department of Veterans Affairs of the State of California) 1999 Series A (Southern California Veterans Home - Chula Vista Facility)	12/1/1999	12/2/1999
State Public Works Board of the State of California Lease Revenue Bonds (California Department of Health Services) 1999 Series A (Richmond Laboratory Project)	10/1/1999	10/1/1999
State Public Works Board of the State of California Lease Revenue Bonds 1999 Series B (Various Community College Projects)	6/1/1999	6/29/1999

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1999 Series A (Various Community College Projects)	4/1/1999	4/29/1999
State Public Works Board of the State of California Energy Efficiency Revenue Bonds Series 1998A	11/1/1998	11/1/1998
State Public Works Board of the State of California Energy Efficiency Refunding Revenue Bonds Series 1998B	11/1/1998	11/1/1998
State Public Works Board of the State of California Lease Revenue Bonds 1998 Series A (Department of Forestry and Fire Protection Telecommunication Towers and Vaults)	11/1/1998	11/17/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1998 Series C (California State Prison-Monterey County (Soledad II))	11/1/1998	11/5/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1998 Series A (Department of Justice Building)	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of the California State University) (Various California State University Projects) 1998 Series C	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series D	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series C	10/1/1998	11/19/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1998 Series A (Library and Courts Annex Building Complex)	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1998 Series A (Franchise Tax Board Central Office Project - Phase II)	4/1/1998	5/7/1998

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1998 Series B	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1998 Series A	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series B	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) (Various Community College Projects) 1998 Series A	4/1/1998	5/7/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1998 Series B (California State Prison - Imperial County)	3/1/1998	4/15/1998
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections Emergency Bed Program) 1998 Series A	3/1/1998	3/1/1998
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Veterans Affairs) 1997 Series A (Southern California Veterans Home - Barstow Facility)	12/1/1997	12/10/1997
State Public Works Board of the State of California Lease Revenue Bonds 1997 Series A (California Science Center)	12/1/1997	12/1/1997
State Public Works Board of the State of California Lease Revenue Bonds (Trustees of The California State University) 1997 Series C (Various California State University Projects)	11/1/1997	11/13/1997
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 1997 Series A (Various Community College Projects)	4/1/1997	4/1/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1997 Series D (California State Prisons - Imperial County)	2/1/1997	3/18/1997

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1997 Series A	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) (Various California State University Projects) 1997 Series B	2/1/1997	3/18/1997
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1996 Series C (California State Prisons - Imperial County)	11/1/1996	11/6/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1996 Series D (Various Community College Projects)	10/196	11/6/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1996 Series D (California State Prisons - Monterey County (Soledad II))	10/1/1996	11/6/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds 1996 Series A (Secretary of State and State Archives Building Complex)	10/1/1996	11/6/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Trustees of the California State University) 1996 Series A (Various California State University Projects)	9/1/1996	10/22/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1996 Series C (Various Community College Projects)	9/1/1996	10/22/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (California Community Colleges) 1996 Series B (Various Community College Projects)	9/1/1996	10/10/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of Corrections) 1996 Series B (California State Prison - Monterey County (Soledad II))	9/1/1996	10/10/1996

Exhibit 1

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
State Public Works Board of the State of California Energy Efficiency Revenue Bonds, Series 1996A	9/1/1996	9/18/1996
State Public Works Board of the State of California Lease Revenue Bonds (Department of Corrections) 1996 Series A (California Substance Abuse Treatment Facility and State Prison at Corcoran (Corcoran II))	4/1/1996	5/14/1996
State Public Works Board of the State of California Lease Revenue Bonds (California Community Colleges) 1996 Series A (Various Community College Projects)	4/1/1996	4/1/1996
State Public Works Board of the State of California Lease Revenue Refunding Bonds (Trustees of The California State University) 1995 Series B (Long Beach and San Luis Obispo Projects)	9/1/1995	9/1/1995
State Public Works Board of the State of California Lease Revenue Bonds 1995 Series A (Department of Justice Building)	5/1/1995	5/1/1995
State Public Works Board of the State of California Lease Revenue Bonds (The Trustees of The California State University) 1995 Series A (Various California State University Projects)	4/1/1995	5/4/1995
State Public Works Board of the State of California Energy Efficiency Revenue Bonds, Series 1995A	4/1/1995	4/19/1995

The base CUSIP numbers for the State Public Works Board issues listed above, except for Energy Efficiency Revenue Bonds, are 130684 - _ _ _, 13068G - _ _ _, and 13068H - _ _ _.

The base CUSIP number for the State Public Works Board of the State of California Energy Efficiency Revenue Bonds is 130677 - _ _ _.

Exhibit 2

1. Information relating to outstanding debt of the State Public Works Board

   a) As of March 1, 2006, the Board had unused authorization to issue an additional $2,999,309,617 of lease revenue bonds. As of that date, the Pooled Money Investment Board had approved interim loans relating to these authorized projects totaling $718,150,660.

   b) The total outstanding bonds of the Board secured by the Master Indenture Reserve Fund totaled $5,439,905,899. The principal outstanding balance of the Master Indenture Reserve Fund as of March 1, 2006 totaled $122,447,345.

2. Additional information relating to certain issues of bonds covered by this Annual Report:

   a) Issue: **State Public Works Board of the State of California Lease Revenue Bonds, 1997 Series A (California Science Center)**

   Description: The following facts are provided related to the State Public Works Board of the State of California Lease Revenue Bonds, 1997 Series A (California Science Center) (the "Bonds"). These facts are intended to be informational only and are not intended to imply a material event has occurred. The Bonds, $37,770,000, financed construction of the main museum building (the "Phase I Facility").

   Pursuant to the Food and Agricultural Code Section 4101.3, the California Science Center is authorized to enter into a site lease and lease-purchase agreement with the California Science Center Foundation, a California Nonprofit Corporation, for the purpose of the foundation developing, constructing, equipping, furnishing, and funding the project known as Phase II of the California Science Center. The Phase II project will require a portion of the Phase I Facility, approximately 11,000 square feet, to be released subject to the lease so that such released property can be used as part of the footprint of the Phase II Facility. The California Science Center will continue to operate and maintain the Phase I Facility. The construction of the Phase II Facility will not result in an abatement of the Phase I rental payment.

   b) Issue: **State Public Works Board of the State of California Lease Revenue Bonds (California Youth Authority), Series 2000 B (Various Correctional Projects)**

   Description: The following facts are provided related to the State Public Works Board of the State of California Lease Revenue Bonds (Department of the Youth Authority) 2000 Series B (Various Correctional

Projects) (the "Bonds"). These facts are intended to be informational only and are not intended to imply a material event has occurred. Approximately $2.6 million of the proceeds of the Bonds were used to pay the costs of a single-story maintenance building located at the Fred C. Nelles Youth Correctional Facility located in Whittier, California (the "Facility").

As previously reported, the Governor's proposed budget for fiscal year 2004-05 reflected the closure of the Facility, effective June 30, 2004. The Budget Act for that fiscal year also reflected this closure and the Facility was closed. On September 30, 2004, legislation was enacted that authorized the Director of the Department of General Services ("DGS") to sell the Facility with the approval of the State Public Works Board (the "Board"). Currently, DGS has initiated surplus property procedures to sell the Facility and that process is on-going.

The Department of Corrections and Rehabilitation (the "Department"), as successor to the California Youth Authority, continues to maintain the Facility and exercise jurisdiction and control over it. The State Budget continues to provide for the full and timely payments of all base rent payable to the Board with respect to the Facility.

The Department will provide further information concerning the Facility as it becomes available.

c) Issue: **State Public Works Board of the State of California Energy Efficiency Revenue Bonds, Series 1995 A**

Project Status: All projects have been completed.

d) Issue: **State Public Works Board of the State of California Energy Efficiency Revenue Bonds, Series 1996 A**

Project Status: All projects have been completed.

e) Issue: **State Public Works Board of the State of California Energy Efficiency Revenue Bonds, Series 1998 A**

Project Status: All projects have been completed.

f) Issue: **State Public Works Board of the State of California Energy Efficiency Refunding Revenue Bonds, Series 1998 B**

Project Status: All projects have been completed.

EXHIBIT 3

APPENDIX B

THE UNIVERSITY OF CALIFORNIA

GENERAL

The University of California (the "University") is the public institution of higher education designated by the State of California (the "State") in its Master Plan for Higher Education for the training of individuals for the professions, for the awarding of doctoral degrees in all fields of human knowledge, and for the conduct of research. Since its founding in 1868, the University has conferred 1,648,300 higher education degrees. The University's administrative offices are located in Oakland, California.

The University is governed by a 26-member Board of Regents, 18 of whom are appointed by the Governor and approved by a majority vote of the State Senate (currently for a 12-year term), one student Regent, who is appointed by the board to a one-year term, and seven ex officio Regents who are members of the board by virtue of their elective or appointed positions. The ex officio Regents are the Governor of the State, Lieutenant Governor of the State, Speaker of the Assembly, State Superintendent of Public Instruction, President of the Alumni Associations of the University, Vice President of the Alumni Associations of the University, and the President of the University.

Classes began at Berkeley in 1873 and the University presently operates general campuses located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, Santa Barbara and Santa Cruz; a health science campus located in San Francisco; and more than 200 laboratories, research stations, affiliated schools, and activity locations. Under the Education Abroad Program, the University operates study programs at over 100 host institutions in 34 countries.

During the year ended June 30, 2005, the University provided instruction to over 201,000 full time equivalent undergraduate and graduate students. The University is engaged in numerous sponsored research projects, in addition to operating three major laboratories for the United States Department of Energy, which conduct broad and diverse basic and applied research in nuclear science, energy production, national defense, and in environmental and health areas. The University operates a cooperative extension program reaching into nearly every area of the State and numerous public service programs. In connection with the University's five medical schools and other health science disciplines, the University operates five acute care academic medical centers with a total of over 3,350 licensed beds and over 2,800 available beds.

The University has a faculty of approximately 9,200 members as of October 2004. Researchers affiliated with the University have been awarded 49 Nobel Prizes, the pinnacle of achievement for groundbreaking research; 17 of the Nobel Prizes have been won since 1995. Current faculty includes 23 Nobel laureates. No public university has won more Nobel Prizes than the University. University affiliated researchers have received 56 National Medals of Science – more than 10 percent of the medals presented – since Congress created the award in 1959. A total of 358 University researchers have been elected to the prestigious National Academy of Sciences. The University has more members of the National Academy of Sciences than any other college or university. Since the first MacArthur Fellowships were bestowed in 1981, more than 60 faculty, researchers, artists and others affiliated with the University have been awarded these prestigious $500,000 grants. Also, more Guggenheim fellowships, approximately 1,250, have been awarded to University faculty than to any other university or college.

As of October 2004, the University employed, on a full-time and part-time basis, approximately 51,800 faculty and other academic personnel and approximately 116,100 staff and management personnel. The University expects that, during the year ending June 30, 2006, enrollment levels and the scope and level of research activities remained at approximately the levels attained during the year ended June 30, 2005.

The following table shows average enrollments (computed on the basis of full-time equivalents) of the University by campus for the general campus and for health science students across campuses for fiscal years 2000 to 2005. Further information on University enrollment can be found at http://budget.ucop.edu/enrollments/enroll.html.

UNIVERSITY OF CALIFORNIA
FULL-TIME EQUIVALENT ENROLLMENTS [1] FOR FISCAL YEARS 2000 TO 2005

	1999-00	2000-01 [3]	2001-02 [3]	2002-03[3]	2003-04[3]	2004-05[3]
Berkeley	28,776	28,987	31,776	32,469	32,441	31,995
Davis	20,672	21,628	22,672	25,919	27,147	26,779
Irvine	16,910	17,980	19,719	21,553	22,284	22,188
Los Angeles	28,805	29,496	32,220	32,768	33,421	32,726
Merced						18
Riverside	10,667	11,954	13,238	14,439	15,408	15,311
San Diego	17,763	18,086	19,534	21,162	22,219	22,847
Santa Barbara	18,859	18,835	20,633	21,082	21,279	21,490
Santa Cruz	10,870	11,726	12,786	13,666	14,429	14,584
Total General Campus	153,322	158,692	172,578	183,058	188,628	187,938
Health Sciences [2]	12,578	12,553	12,726	13,130	13,268	13,465
Total University	165,900	171,245	185,304	196,188	201,896	201,403

1 Does not include students in self-supporting programs.
2 Includes San Francisco campus enrollment.
3 Includes State-supported summer enrollment.

Source: University of California Office of the President ("UCOP"), Budget Office

INDEBTEDNESS OF THE REGENTS

The Regents of the University of California ("The Regents") has outstanding various revenue bonds and other obligations, as listed below, maturing from 2005 through 2039. These special obligations are secured by and payable from revenues of the facilities financed, investment income, student fees, rental payments and other revenues. In October 1996, The Regents established its commercial paper program in an amount not to exceed $550 million outstanding. As of December 31, 2005, all $550 million of commercial paper was issued and outstanding. In addition, The Regents had outstanding principal on loans and private placements with various financial institutions of approximately $138 million as of December 31, 2005.

The following table lists the outstanding public indebtedness of The Regents as of December 31, 2005.

OBLIGATIONS ISSUED AND OUTSTANDING
as of December 31, 2005 (dollars in thousands)

	Amount Issued	Amount Outstanding
General Revenue Bonds		
2003 Series A	$914,270	$872,265
2003 Series B	385,835	361,755
2005 Series C	252,270	252,270
2005 Series D	31,160	31,160
2005 Series E	111,610	111,610
2005 Series F	446,815	446,815
2004 Series G	308,450	308,450
2004 Series H	23,830	23,830
2005 Series I	20,540	20,540
Limited Project Revenue Bonds, 2004 Series A	371,590	371,590
Limited Project Revenue Bonds, 2004 Series B	600,480	600,480
Limited Project Revenue Bonds, 2004 Series C	15,970	15,970
Multiple Purpose Projects		
1991 Series: Refunding Revenue Bonds Series E	283,930	261,625
Revenue Bonds Series F	298,660	6,890
Revenue Bonds Series G	64,115	4,165
Revenue Bonds Series H	109,185	4,750
Revenue Bonds Series I	24,020	2,940
Revenue Bonds Series J	64,060	8,140
Revenue Bonds Series K	294,045	274,870
Revenue Bonds Series L	65,220	47,875
Revenue Bonds Series M	131,925	124,915
Revenue Bonds Series N	44,825	35,310
Revenue Bonds Series O	346,020	340,865
Revenue Bonds Series P	19,850	18,840
Revenue Bonds Series Q	364,255	358,335
Hospital Revenue Bonds		
UCLA Medical Center, Series 2002	32,420	30,420
UCLA Medical Center, Series 2004 A	165,000	165,000
UCLA Medical Center, Series 2004 B	91,165	91,165
UC Davis Medical Center, Series 1996	345,880	7,695
UC Davis Medical Center, Series 2003	347,775	339,600
UCSF-Stanford Health Care, 1998 Series A	104,685	94,895
UC San Diego Medical Center, Series 2000	69,000	57,335
Research Facilities Revenue Bonds		
1998 Refunding Series C	89,015	83,845
1998 Series D	49,110	1,125
2001 Series E	122,800	120,420
	Amount Issued	**Amount Outstanding**
Certificates of Participation		
Various Energy Projects: 1999 Series A	60,465	2,480
1999 Series B	10,390	1,280
1999 Series C	10,815	4,870
2002 Series A	45,455	42,185
Commercial Paper		
Series A	430,000	430,000
Series B	120,000	120,000
Total	7,686,905	6,498,570

Source: UCOP, External Finance

The State Public Works Board of the State of California (the "SPWB") has issued various lease revenue bonds, maturing from 2006 through 2030, for the purpose of financing or refinancing various facilities for the University. In connection with these lease revenue bonds of the SPWB, The Regents has leased the financed facilities from the SPWB pursuant to facility leases, which require The Regents to pay rental payments in amounts sufficient to pay the principal of and interest on such lease revenue bonds. Such lease rental payments are appropriated annually by the State as a line item for the University's operating budget. The Regents has appropriated and paid in a timely manner all rental payments due pursuant to its leases with the SPWB, including during periods when adoption of the State Budget was substantially delayed. The following table sets forth the outstanding lease revenue bonds of the SPWB which were issued for the purpose of financing facilities at various campuses of the University as of December 31, 2005:

State Public Works Board of the State of California	**As of December 31, 2005** **Amount Outstanding** **(in 000's)**
High Technology Facilities Lease Revenue Bonds:	
1986 Series A (San Diego Facility)	$4,600
1986 Series A (Irvine Facility)	580
1990 Series A (Various University of California Projects)	41,696
Lease Revenue Bonds:	
1992 Series A (Various University of California Projects)	0
1993 Series B (Various University of California Projects)	93,108
1994 Series A (Various University of California Projects)	15,130
1994 Series B (Various University of California Projects)	6,240
1997 Series C (Various University of California Projects)	128,655
2002 Series A (UCLA Replacement Hospital)	155,430
2003 Series A (UC Davis MIND Institute)	31,105
2004 Series A (UC Davis Medical Center Tower II)	16,950
2004 Series F (Various University of California Projects)	134,665
2005 Series C (Various University of California Institute Projects)	129,170
2005 Series D (Various University of California Projects)	342,660
2005 Series L (Various University of California Projects)	156,210
Lease Revenue Refunding Bonds:	
1993 Series A (Various University of California Projects)	331,240
1997 Series A (Various University of California Projects)	123,305
1997 Series B (Various University of California Projects)	14,185
1998 Series A (Various University of California Projects)	36,780
1998 Series B (Various University of California Projects)	25,960
1998 Series C (Various University of California Projects)	10,110
1998 Series F (Various University of California Projects)	10,635
2001 Series A (Various University of California Projects)	32,140
Total Outstanding	$1,840,554

Source: UCOP, External Finance

The Regents has never defaulted in the payment of maturing principal of or interest on any of its loans, bonds, notes, or certificates or in the payment of rental due under capital leases of its facilities.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

The Constitution of the State of California provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California", which is vested with full powers of organization and government subject only to such legislative control as may be necessary to ensure compliance with the terms of the endowments of the University and the security of its funds and such competitive bidding procedures as may be applicable to the University by statute for the letting of construction contracts, sales of real property, and purchasing of materials, goods and services. The Regents is a board composed of both ex officio members and members appointed by the Governor and approved by the Senate.

The members of the Board of Regents and the Officers of The Regents as of December 31, 2005 are listed below. Additional information and a current list of Regents can be obtained at http://www.universityofcalifornia.edu/regents/contact.html.

Appointed Regents:

Richard C. Blum
San Francisco

Russell Gould
Los Angeles

Judith L. Hopkinson
Santa Barbara

Eddie Island
Santa Monica

Odessa Johnson
Modesto

Joanne Kozberg
Los Angeles

Sherry L. Lansing
Los Angeles

David S. Lee
San Jose

Monica C. Lozano
Los Angeles

George M. Marcus
Palo Alto

John J. Moores, Sr.
San Diego

Gerald L. Parsky
Los Angeles

Norman J. Pattiz
Culver City

Peter Preuss
La Jolla

Adam Rosenthal
Davis

Frederick Ruiz
Dinuba

Tom Sayles
San Diego

Leslie Tang Schilling
Woodside

Paul Wachter
Santa Monica

Ex-Officio Regents:	**The Officers of The Regents:**
Arnold Schwarzenegger Governor of California	President Arnold Schwarzenegger Governor of California
Cruz Bustamante Lieutenant Governor	Chairman Gerald L. Parsky
Fabian Núñez Speaker of the Assembly	Vice Chairman George Marcus
Jack O'Connell State Superintendent of Public Instruction	Interim Treasurer Marie N. Berggren
Richard Rominger Alumni Regent (President of the Alumni Associations of the University of California)	General Counsel James E. Holst
Eric Juline Alumni Regent (Vice President of the Alumni Associations of the University of California)	Secretary Patricia L. Trivette
Robert C. Dynes President of the University of California	

FINANCIAL INFORMATION

Financial information for the University is set forth in the University's Annual Financial Report for the fiscal year ended June 30, 2005. The University's financial report for the fiscal years ended June 30, 2000 through June 30, 2005 can be found at http://www.ucop.edu/ucophome/busfin/reports.html.

BUDGETARY PROCESS

The University presents to the State a single budget for the ten-campus system ("The Regents' Budget"). For the most part, State funds for the operating budget are appropriated to the University in a lump sum, although amounts for a few programs of particular interest to the State are appropriated by line item. Capital budget funds are appropriated by project, except that funds for minor capital projects are appropriated as a lump sum. Operating funds received from the

State are allocated by the President to the campuses and to the Office of the President after consultation with the Executive Budget Committee, Chancellors, Vice Presidents and faculty groups. Because the processes for developing, negotiating, and allocating the operating and capital budgets are somewhat different, they are discussed separately below.

Budget Consultation: Development and implementation of the budget is an ongoing process that comes together in the activities of the Executive Budget Committee. This committee, which meets monthly, is chaired by the President and includes faculty senate members, two Chancellors, an Academic Vice Chancellor, and several senior management members of the Office of the President. The group is charged with preparing recommendations for the allocation and distribution of The Regents' Budget, and has the responsibility of monitoring and overseeing the allocation of funds. Administrators from the Office of the President also meet regularly with faculty and student groups to keep them informed of budget developments and seek their advice on budget issues. Further, there is usually a budget discussion at the monthly meeting of the Council of Chancellors.

The Regents' Budget: The Regents' Budget is the University's annual budget statement. It provides a description of the existing budget, including income and expenditures from all fund sources, and serves as the budget request to the State for the coming year, describing in some detail the need for additional funds.

Committees of the Board of Regents review the draft Regents' Budget. Any changes requested at that session are incorporated in the budget, which is then presented for approval by the full Board of Regents in November.

Governor's Budget/Budget Act: The Governor's Budget is presented by the Governor to the Legislature each January. Although the Governor's Budget usually incorporates many of the additional funds requested in The Regents' Budget, it does not necessarily parallel funding requests made in The Regents' Budget. The Governor's recommended budget is debated during legislative hearings each spring and in June the Legislature is required by California law to send its own recommended budget back to the Governor. At that point, the Governor may delete, but not add, funds. A two-thirds vote by the Legislature can override the Governor's veto of funds. Following the Governor's action, if any, on the Legislature's recommended budget, it becomes final as the "State Budget Act."

Negotiations with the State and Legislative Budget Hearings: Throughout the year, University staff engages in discussion of issues and priorities with staff in the Department of Finance, the Legislative Analyst's Office, and with Legislative committee staff. The staff negotiations sometimes culminate in a meeting between the President and the Governor to resolve, if possible, any remaining issues before the Governor's Budget is published. University staff also works closely with the Legislative Analyst's office. In February, the Legislative Analyst publishes an analysis of, and recommendations for legislative action on, the Governor's Budget. This analysis is the principal agenda for the legislative hearings, including hearings on the budget recommended for the University by the Governor. The Regents' Budget is heard separately by the Assembly and the Senate. In a normal year, there are 5-6 operating budget hearings and 2-3 capital budget hearings in each house. Differences between the two houses are resolved in a conference committee, usually in mid-June, after which the budget is returned to the Governor.

Allocations to Campuses: The President allocates funds to the campuses after consultation with the Executive Budget Committee, Chancellors, Vice Presidents and faculty groups. Two allocations are made each year: a preliminary and a final. The first allocates increases or decreases in State funds recommended in the Governor's Budget. This allocation is subject to revision as a result of legislative actions on the Governor's Budget and based on the University's continuing internal budget consultation process. Final allocations are usually made in July, after the State Budget Act is signed, at which time only minimal consultation and fewer changes to the budget base are usually required.

Capital Budget: The capital budget consists of individual major projects (over $400,000) proposed for funding along with a lump sum for minor capital projects (under $400,000). The internal process for developing the capital budget is an interactive process, with campuses initially submitting schedules and brief descriptions of both State and non-State funded projects. After compilation and review of campus submittals by the Office of the President, discussions are held with campus representatives regarding project need, justification, priority and likelihood of funding. Revised schedules are sent to the campuses for approval or dissent. Campuses then make a second submittal in greater detail for each project. The capital portion of The Regents' Budget is prepared from these more detailed submittals. Major capital projects are approved by the State on a line-item basis; funds for minor capital projects are approved on a lump-sum basis. In addition to State funds, the University also uses gift funds, certain fees and reserves, and other funds available to The Regents for capital projects.

Current Budget Matters: The 2004-05 Budget Act appropriated State General Funds of $2.709 billion to support the University's operations and programs, a reduction of approximately $159 million or 6% from the 2003-04 State General Fund appropriation approved in the Budget Act (before mid-year cuts). The budget included $183.5 million in reductions to be offset with student fee increases for undergraduates, graduate academics, professional school students, and nonresidents; another $12.8 million in reductions related to enrollment reductions (budgeted enrollments were reduced by 1,650 to 200,976 FTE); $125.4 million in base budget reductions; and $144.7 million in additional funds to restore funds cut from the 2003-04 budget on a one-time basis, provide additional one-time funds to keep the Merced campus on track to open by Fall 2005, and to fund other normal base budget adjustments for debt service and annuitant health benefits.

The University implemented fee increases as follows for 2004-05: 14% increase in mandatory system-wide student fees for undergraduate students, 20% for graduate academic students, an average 30% increase for professional school students, and a 20% increase in nonresident tuition.

For 2005-06, the final Budget Act provides an increase in State funding of $134.4 million, or 5% over the Budget Act appropriation for 2004-05 for State General Funds of $2.843 billion. This includes a base budget increase of 3% which, in combination with student fee revenue and UC General Fund revenue, is sufficient to fund increases in cost of living, employee health benefits, merit increases, and non-salary price increases; enrollment growth of 5,000 students; maintenance of new space; one-time funding of $14 million for start-up associated with opening the Merced campus; as well as $750,000 in funding for a new initiative to increase the production of math and science teachers graduating from UC. Student fee increases of 8% for undergraduates and 10% for graduate academic students have been approved by the Board of Regents for 2005-

06. A 3% increase in professional school fees has been approved for all professional schools and further increases were approved for individual schools up to a maximum of 7% or a total increase of up to 10%. Nonresident tuition will increase by 5% in 2005-06.

[The 2006-07 Governor's Budget proposes State General Funds of $3.049 billion to support the University's operations and programs, an increase of approximately $206.8 million or 7.3%, to the 2005-06 State General Fund appropriation approved in the Final Budget Act. The proposed budget includes increases of $80.5 million in the base budget, $75 million to buy out student fee increases, $52.2 million for enrollment and $16.4 for debt service and specific initiatives, offset by a $17.3 reduction in one time funds for student academic preparation. The Governor's Budget will be reviewed in the May Revise budget process and again during legislative budget hearings prior to a Final Budget Act.]

On July 24, 2003, a group of present and former students filed a class action lawsuit challenging several student fee increases (the Kashmiri litigation). The Kashmiri litigation claims that certain fee increases breached alleged contracts between the University and its students. The fee increases at issue are: (1) increases in the Fee for Selected Professional School Students adopted by the Board of Regents in December 2002 and later to the extent that such fee increases are charged to students enrolled prior to December 2002; (2) a $135 fee increase approved by the Board of Regents in December 2002 for the Spring 2003 Semester; and (3) increases assessed in May 2003 for the Summer 2003 sessions. The Kashmiri litigation does not challenge the University's general authority to adjust fees.

Recent rulings indicate that plaintiffs have some prospect of prevailing on these claims at the trial court level, although it is anticipated that any trial court ruling will be appealed. If plaintiffs prevail on all issues The Regents may be required to rebate as much as $46 million in collected fees and interest. The University contends that the proper amount of damages, assuming a liability finding, is less than $15 million. Moreover, The Regents may be prevented from collecting in excess of $20 million in additional fees during the 2004-06 academic years.

In addition, on July 12, 2005, four professional school students filed a class action lawsuit which seeks to extend the professional fee claim set out in the Kashmiri litigation to students who first enrolled in the 2003-04 academic year. Plaintiffs filed a motion for preliminary injunction seeking a court order barring the University from collecting fees from the 2003-04 entering class which exceed the fee levels which applied in the academic year 2003-04. The motion has been denied. The total potential economic impact of the case to the University is uncertain. As in the Kashmiri litigation, this litigation does not challenge the University's general authority to adjust fees.

Additional budget information can be found at http://universityofcalifornia.edu/ news/budget/welcome.html.

EMPLOYER–EMPLOYEE RELATIONS

Under the Higher Education Employee Relations Act (HEERA), the law that provides for collective bargaining in higher education became effective July 1, 1979. Currently, the University negotiates with 13 unions over terms and conditions of employment for more than 60,000 of the University's approximately 160,000 employees statewide.

It is always difficult to determine with assurance the future course of employer–employee relations. Nevertheless, at the present time, The Regents has no reason to anticipate that the future labor relations climate within the University will have a material adverse impact upon the ability of The Regents to make payment on its outstanding indebtedness.

RETIREMENT PLAN FUNDS

The Regents maintains the University of California Retirement Plan (the "Plan"), a defined benefit pension plan, which provides lifetime retirement income, disability protection, death benefits, and pre-retirement survivor benefits to eligible employees of the University of California. The Plan includes four membership classifications: members with Social Security, members without Social Security, Safety members (police and firefighters), and Tier Two members.

In 1990-91, The Regents adopted a full funding policy that provides for actuarially determined periodic contributions at rates that provide for sufficient assets to be available when benefits are due. Under the full funding policy, The Regents suspend contributions to the Plan according to a formula that measures market or actuarial value to actuarial accrued liability, current liability, and normal cost. University and member contributions to the Plan have generally not been required since November 1, 1990 for most membership classifications. Member pretax contributions otherwise made to the Plan are redirected to the University of California Defined Contribution Plan on a mandatory basis.

As of June 30, 2005, the Plan's independent actuary reported that the actuarial accrued liability of the Plan (calculated on an entry age normal cost basis) was approximately $37.3 billion. The Plan's net assets held in trust for pension benefits as of June 30, 2005 were approximately $41.9 billion.

Employees hired before October 1, 1961 participate in the California Public Employees' Retirement System ("CalPERS"). The University's total contribution to CalPERS (including contributions on behalf of employees at the Department of Energy Laboratories) was approximately $335,000 and $442,000 for the years ended June 30, 2004 and June 30, 2005, respectively.

For more information on the University's Retirement Plan Funds, see "APPENDIX B – THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2004-2005—Management's Discussion and Analysis—The University of California Retirement System (UCRS)."

EXHIBIT 4

The University of California
It starts here

Annual Financial Report 2004-05

Every day, everywhere

The University of California, founded in 1868, is a system of 10 campuses with a mission of teaching, research and public service. With 208,000 graduate and undergraduate students, UC is the world's premier public university. UC has three law schools, five medical schools and the nation's largest continuing education program. The University also manages three national laboratories that are engaged in energy and environmental research. Its Natural Reserve System manages approximately 130,000 acres of natural habitats for research, teaching and outreach activities.

It starts here.

CAMPUSES

1 Berkeley
2 Davis
3 Irvine
4 Los Angeles
5 Merced
6 Riverside
7 San Diego
8 San Francisco
9 Santa Barbara
10 Santa Cruz

NATIONAL LABORATORIES

A E.O. Lawrence Berkeley National Laboratory
B Lawrence Livermore National Laboratory
C Los Alamos (N.M.) National Laboratory

FACTS IN BRIEF

	2005	2004	2003	2002	2001
STUDENTS					
Undergraduate fall enrollment	158,431	159,486	154,979	148,024	141,366
Graduate fall enrollment	49,478	48,905	46,318	43,879	41,989
Total fall enrollment	**207,909**	**208,391**	**201,297**	**191,903**	**183,355**
University Extension enrollment	332,842	338,084	353,843	389,361	444,102
FACULTY AND STAFF (full-time equivalents)	**121,726**	**120,786**	**118,533**	**114,282**	**108,827**
SUMMARY FINANCIAL INFORMATION (IN THOUSANDS OF DOLLARS EXCEPT RETIREMENT PLAN PARTICIPATION)					
UNIVERSITY OF CALIFORNIA					
PRIMARY REVENUE SOURCES					
Student tuition and fees [1]	$ 1,557,828	$ 1,377,923	$ 1,096,609	$ 1,014,124	$ 993,198
Grants and contracts	3,976,549	3,826,641	3,531,343	3,209,669	2,886,501
Medical centers, educational activities and auxiliary enterprises	5,872,193	5,454,519	5,096,772	4,606,702	4,227,299
State educational, financing and capital appropriations	2,773,037	2,972,879	3,247,831	3,438,417	3,258,067
Private gifts	536,995	544,853	485,242	358,315	527,026
Capital gifts and grants	217,218	319,852	389,852	249,166	465,704
Department of Energy laboratories	4,146,261	4,115,635	4,173,017	3,595,374	3,101,497
OPERATING EXPENSES BY FUNCTION					
Instruction	3,046,225	2,873,614	2,752,994	2,604,866	2,554,550
Research	2,916,534	2,791,777	2,623,300	2,418,040	2,207,922
Public service	371,209	394,066	426,696	444,923	388,188
Academic support	1,017,506	1,053,902	1,046,036	986,728	944,414
Student services	436,050	415,218	406,380	392,502	333,578
Institutional support	652,646	603,220	649,290	624,082	623,132
Operation and maintenance of plant	415,096	393,765	367,181	385,273	410,548
Student financial aid [2]	369,424	358,048	358,711	317,888	279,663
Medical centers	3,549,309	3,352,536	3,153,768	2,836,611	2,672,448
Auxiliary enterprises	695,310	646,458	610,794	573,087	537,774
Depreciation and amortization	954,878	899,811	837,520	754,042	715,497
Department of Energy laboratories	4,112,077	4,082,089	4,139,681	3,563,157	3,070,379
Other	72,644	61,315	45,011	25,299	24,783
FINANCIAL POSITION					
Investments, at fair value	12,074,900	11,557,368	11,031,876	10,324,370	10,105,593
Capital assets, at net book value	15,530,305	14,167,202	12,653,546	11,362,053	10,159,463
Outstanding debt, including capital leases	7,945,285	6,912,989	6,354,193	5,492,118	5,171,196
Net assets	18,977,617	17,794,394	16,447,893	15,251,124	14,636,534
UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
PRIMARY REVENUE SOURCES					
Private gifts	332,474	407,661	280,364		
PRIMARY EXPENSES					
Grants to campuses	343,388	390,254	293,009		
FINANCIAL POSITION					
Investments, at fair value	2,950,090	2,597,250	2,223,046		
Pledges receivable, net	426,650	452,543	402,681		
Net assets	3,249,942	2,930,352	2,507,231		
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
PLAN PARTICIPATION					
Plan membership	188,790	184,783	179,636	173,343	163,217
Retirees and beneficiaries currently receiving payments	41,477	39,738	37,867	36,165	34,684
PRIMARY REVENUE SOURCES					
Contributions	$ 923,788	$ 809,433	$ 698,904	$ 643,404	$ 587,497
Investment income, net	1,505,731	1,298,036	1,189,429	1,341,867	1,684,915
Net appreciation (depreciation) in the fair value of investments	3,180,646	4,564,427	1,067,838	(5,382,805)	(4,609,315)
PRIMARY EXPENSES					
Benefit payments	1,300,129	1,127,476	993,644	949,355	886,064
Participant withdrawals	392,473	332,567	228,266	271,291	232,661
FINANCIAL POSITION					
Investments, at fair value	51,372,279	47,003,436	42,324,557	41,006,288	45,637,282
Members' defined pension plan benefits	41,935,273	39,263,399	35,398,263	34,514,561	38,954,530
Participants' defined contribution plan benefits	11,295,257	10,076,614	8,757,931	7,937,243	8,143,696
Actuarial value of assets	41,085,000	41,293,000	41,429,000	41,649,000	40,554,000
Actuarial accrued liability	37,252,000	35,034,000	32,955,000	30,100,000	27,451,000

Certain revisions in classifications, or restatements, have been made to prior year information in order to conform to current year presentation.

[1] Scholarship allowances, including both financial aid and fee waivers that are not paid directly to students, are recorded primarily as a reduction of student tuition and fees in the statement of revenues, expenses and changes in net assets.

[2] Includes only student aid paid directly to students. The state-administered California grant awards are not included as expenses since the government determines grantees. College work study expenses are shown in the programs in which the student worked.

TABLE OF CONTENTS

PRESIDENT'S LETTER

At the University of California, we're changing lives. And not just in the classroom. Whether they live next door to or are hundreds of miles away from a UC campus, Californians are touched in a meaningful way each day by the University of California.

For the past two years, I've been traveling the length and breadth of this great state, and I've witnessed first-hand how the University is contributing to the quality of life in California and how it is transforming lives. I've seen a UC academic preparation program in a rural Imperial Valley high school help students master the algebra they need to attend a university while the school endeavors to build a college-going culture among its students. I've walked through a community garden in a Long Beach housing project where UC Cooperative Extension advisers, in conjunction with local agencies, are teaching residents to cultivate fresh produce and are providing residents with information about nutrition and healthy lifestyles. And, I've toured many of our pioneering research centers, like the Bodega Marine Laboratory on the rugged Northern California coast. There, researchers are working with state and federal officials to better understand and protect our oceans and other natural resources.

The University of California is helping Californians, young and old, to expand their potential through our academic preparation programs and lifelong learning classes; we're contributing our expertise to global, as well as local issues involving energy and transportation, biotechnology and homeland security, to name but a few. We're welcoming the public to our museums and galleries, performing arts centers and concert halls, libraries and special collections, athletic events and recreational facilities, and botanical gardens and natural reserves. The roads and bridges we travel are safer because of UC engineering research, our computers are faster and more efficient because of our research and work with private industry, and our health care is better because of UC-based medical training and research.

UC patient care comprises the fifth-largest health-care delivery system in the state. With five academic medical centers, the University operates the nation's largest training program for doctors and other health professionals. At these superb state-of-the-art medical facilities, where a sizeable number of Californians receive the finest care available, medical discoveries and innovations are being transformed into new treatments.

The University's presence can be felt internationally, as well. Our faculty commonly conducts research with colleagues in Africa, Asia, Europe, and Latin America, while UC students are studying in Mexico, Great Britain, and 33 other countries worldwide through UC's outstanding Education Abroad Program. In addition, following the Indian Ocean tsunami in December 2004, UC researchers and students traveled to the affected nations to assist in recovery efforts and to lend their expertise. Meanwhile, in a continuing commitment to extending the University's excellence worldwide, UC San Francisco, in conjunction with other UC campuses and colleagues, is pioneering a global health sciences program that focuses its expertise in the health, biological, social and policy sciences on a range of diseases – HIV/AIDS, tuberculosis and malaria, and others – that threatens citizens in developing nations in Africa and Asia.

This tradition of service to California and the world is nothing new – it extends back to UC's founding in 1868. Industry-University bonds were forged first in the late 1800s when UC faculty took the findings from their laboratories and classrooms directly to the fields and rural communities, and as a result, California grew into the world's leader in agriculture. The state became known for the incredible variety and quality of its produce, as well as for its innovative cultivation techniques.

This rich heritage of contributing to the well-being of California continues to this day, as UC research and education constantly evolves to meet the changing needs of the state, the nation and the world. You will read about some of these contributions in the following pages. Clearly, UC's influence is felt in every corner of the globe.

I firmly believe that a strong University of California is integral to the future strength and success of California. We are proud to play a major role in preparing an educated work force, in developing research innovations that turn into new products, new companies and new jobs, and in serving the needs of California's diverse communities. I hope we can count on your continuing support of a UC enterprise that clearly has an impact every day and in every corner of the Golden State.

Robert C. Dynes

Every day, everywhere

The University of California brims with excitement, from the laboratories that foment discovery to the classrooms that impart knowledge to the next generation of economic, social and political leaders. But the University of California's influence can be found far beyond the campus confines. We see it in hospitals and community clinics, where UC research and expertise is used to nurse sick patients to health; in K-12 classrooms, where students from underprivileged backgrounds are inspired to become the first in their family to pursue a college degree; in government agencies, where engineers rely on UC experts to build better, safer and more cost-effective structures; and on farms, where the latest word from UC's field agents fuels the state's thriving agricultural industry. Indeed, whether we're in the inner city, a tiny rural community or anywhere in between, the University of California touches so many aspects of our lives every day. The pages that follow offer a sampling of the myriad ways in which UC students, faculty and alumni are making a direct impact on the lives of individuals throughout the nation's most populous and diverse state — and far beyond — regardless of whether these individuals ever set foot in a UC classroom or laboratory.

UC is serving California, the nation and the world, every day, everywhere

UC's influence extends far beyond the classroom

In hospitals and community health clinics, in museums and natural reserves, in rural communities and along border towns, in nations across the world

Quality and impact: It starts here

At home and abroad

Martha Viviana Martinez examines patient

IRVINE California Latinos – one-third of the state's population, and growing – are all too often underserved by the state's health care system, whether it's because of inadequate insurance or cultural and language barriers resulting from the shortage of Latino and Spanish-speaking physicians. Martha Viviana Martinez saw this first-hand, as she traveled with her mother to doctor appointments. She had to translate for her Mexican-born mother. "Seeing my mother struggle, and people like her, it made me realize that I had an opportunity to use the language (Spanish) and understanding of the two cultures, to alleviate some of that disparity," she says.

In the UC Irvine College of Medicine's Program in Medical Education for the Latino Community (PRIME-LC), Martinez found a perfect fit. PRIME-LC, which admitted Martinez as part of its inaugural class in 2004, is a first-of-its-kind curriculum combining medical-school training focused on Latino health issues with a master's program in Latino health care disparities, public health or health care policy.

Before they had begun their first medical school class, the eight members of the class had been initiated into PRIME-LC with a six-week culture immersion program. By 2008, PRIME-LC will have 60 students enrolled – students who, like Martinez and Carl Smith, will become future leaders in the efforts to better address current disparities. "This is where I belong," says Smith, who would like ultimately to help meet the health care needs of underserved Latinos through a nonprofit organization. "It's where I can learn how to make a difference."

EAST AFRICA Disease knows no boundary. HIV/AIDS, the SARS (severe acute respiratory syndrome) virus and the avian influenza are among the diseases that have crossed national borders as well as continents to plague people worldwide, especially in impoverished nations.

"We don't live in an isolated world anymore," notes Haile Debas of UC San Francisco's Global Health Sciences program, which is leading the way among U.S. academic medical centers in developing international collaborations in research and training to address public health issues affecting developing nations. The program will also examine health disparities among the poor in the United States.

The interdisciplinary Global Health Sciences program integrates UCSF's expertise in all of the health, social and biological sciences. The program – for the first time ever – not only pulls together UCSF faculty and students, clinics and laboratories, and other resources, but will also involve UC Berkeley and other UC campuses.

"I am convinced that (Global Health Sciences) will assist Africa ... in the efforts underway to eradicate poverty through opening opportunities for partnerships based on knowledge and capacity building," says Pascoal Mocumbi, the former prime minister of Mozambique who is now the high representative of the Netherlands-based European and Developing Countries Clinical Trials Partnership.

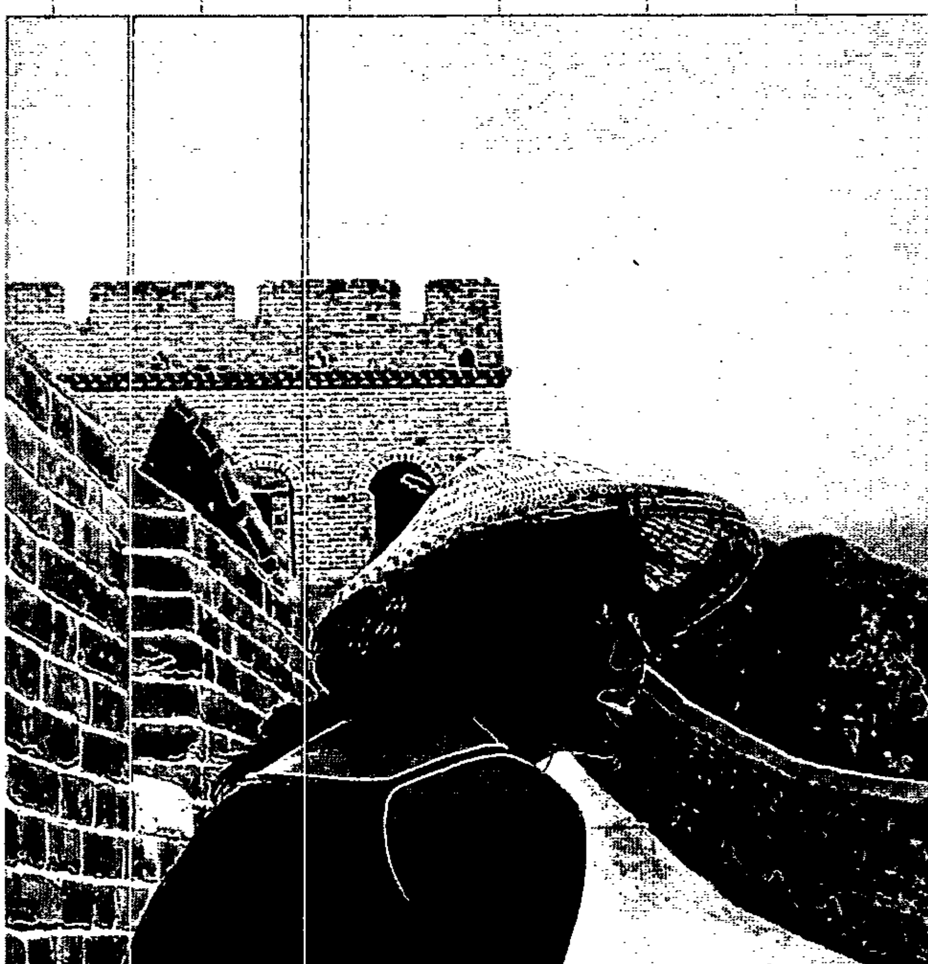
UC's

obal Health Sciences program, working with governments and universities in East Africa, seeks to expand health services to villagers. The award-winning photograph and UCSF alum Phil Borges took this photograph.

The University of California: every day, everywhere

WALNUT CREEK The Joint Genome Institute has helped crack the human genectic code 2

CHINA Education Abroad student tours at the Great Wall of China 1



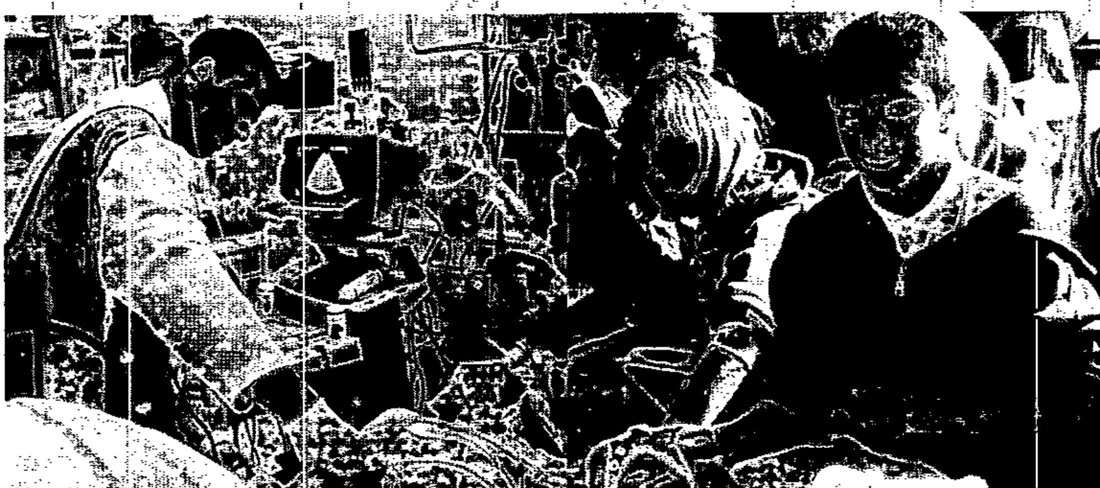
FRESNO UC improves the health of Californians through health care clinics and community outreach programs 3

The stories behind these photographs can be found beginning on page 27

IRVINE Quality patient care is a hallmark of UC **4**

SANTA CRUZ Children touch sealife at Seymour Marine Discovery Center **5**

PACIFIC OCEAN Scripps Institution of Oceanography is a pioneer in ocean science research **6**



SALINAS Lettuce is harvested and flown to Shanghai markets the same day **7**


Caring fo

LINCOLN (PLACER COUNTY) While riding the light rail on his way home from jury duty one Friday night in November 2000, David Herbert began to suspect that the headaches and flu symptoms he had been experiencing might represent something more serious. "I was having trouble reading the newspaper – I couldn't see every other word," he says. On Monday morning he called his doctor, who told Herbert he needed to get a CAT scan right away. The scan revealed a tennis ball-sized tumor on the right side of Herbert's brain.

The news would only get worse after the tumor was surgically removed and sent to the lab for biopsy. Herbert had a glioblastoma multiforme, the most aggressive and deadly type of brain tumor. In April 1999, still enjoying excellent health, David Herbert had taken early retirement from his job as an airline pilot. In early 2001, still more than a year shy of his 60th birthday, the Lincoln resident was told he had six months to live.

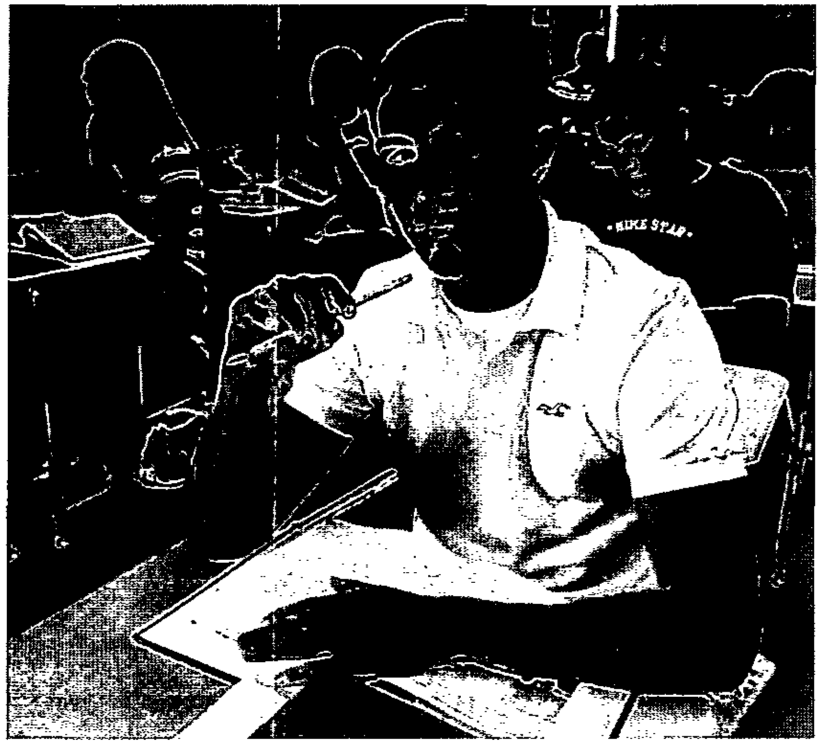
That was more than four years ago. Herbert is alive and symptom-free today thanks to his participation in a Phase III clinical trial at UC San Francisco for a drug combination involving IL-13, which targets glioblastomas. The trial, led by Dr. Sandeep Kunwar, uses convection-enhanced delivery through catheters to bring a high concentration of the experimental drug to the tumor while mostly sparing the surrounding healthy cells.

Herbert, the first patient to be treated in the trial, felt like his old self within six months. "The alternative was overwhelming," he says. "You see the statistics and realize they got it right with this treatment, and the feeling is just incredible."

patients

David Herbert (right) with his doctor, UCSF's Sandeep Kunwar

Helping students succeed



Algebra Academy student Angel Gonzalez

BRAWLEY Angel Gonzalez, a 17-year-old senior at Brawley High School, has been involved with the Algebra Academy since he was an entering freshman. "It's helped me a lot," he says, noting that the program has given him focus as a student and confidence in his future. "Academics are the No. 1 thing."

The Algebra Academy began five years ago as a modest program in Brawley, a small town in the Imperial Valley near the California-Mexico border, but its success has spawned more than 20 similar programs throughout the state. Brawley High Principal Tony Munguia and colleagues, in discussions with Blas Guerrero of the University of California, devised the summer Algebra Academy because the students weren't passing mathematics courses. "Math was the roadblock that was keeping our kids from being eligible for college," says Munguia.

Math and science are so crucial to K-12 students' success that UC is involved in a number of initiatives to help California schools. Besides working directly with the students, UC recently launched California Teach, a program that encourages students to consider teaching as a career, creating courses to help them become great teachers and providing financial support for their education. Through the initiative, UC plans to quadruple the number of science and math teachers it trains annually by 2010.

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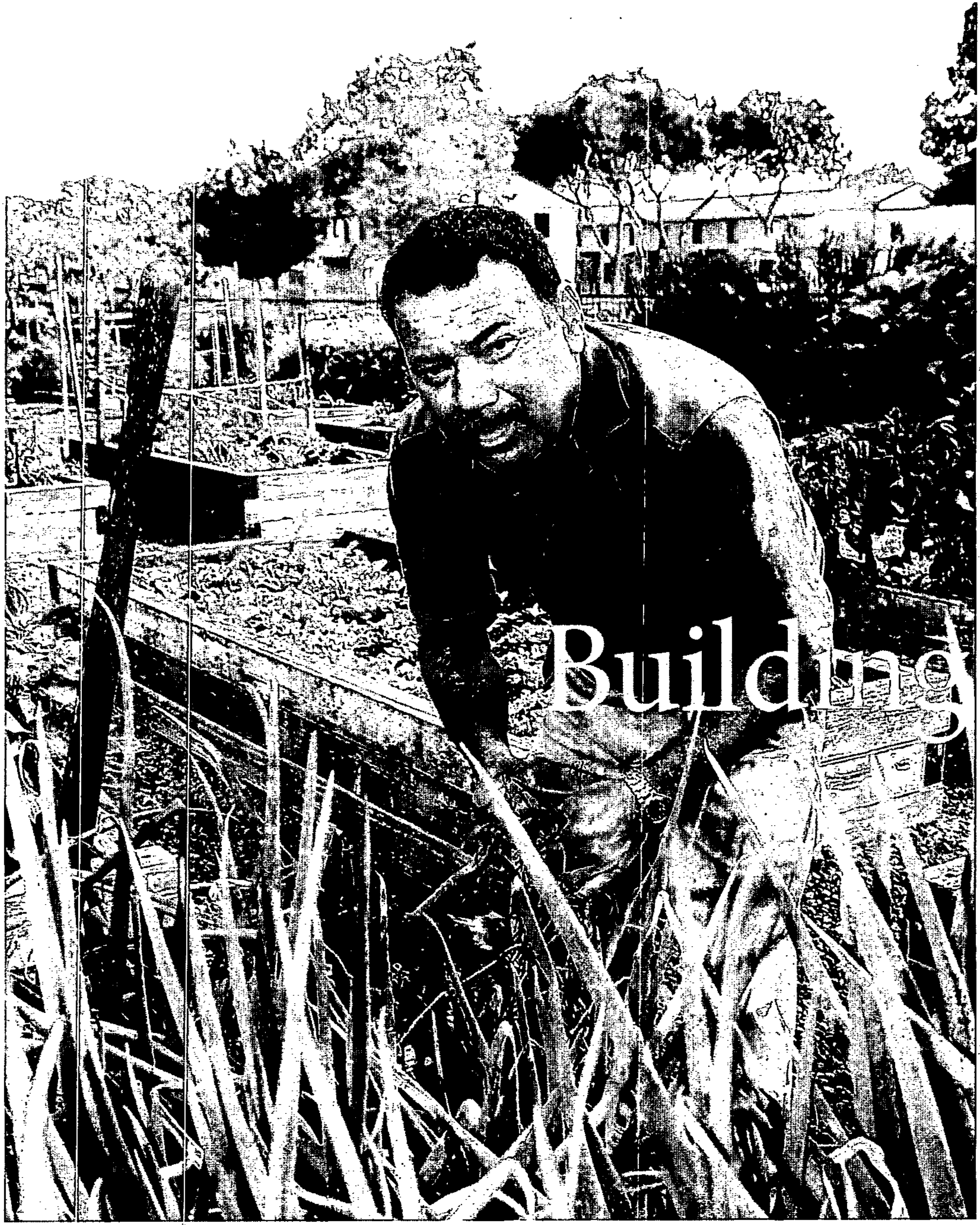

Building

Aiding survivors

community

LONG BEACH The 1992 Los Angeles riots were particularly devastating to Manuel Cisneros, who lost his auto repair business and ended up unemployed and living with his wife and four children in Long Beach's Carmelitos housing community. That's when he enrolled in The Growing Experience Landscape Training Program – an action that, Cisneros says, "changed my life."

Cisneros is now agricultural program coordinator for The Growing Experience, a nine-year-old program operated in partnership among UC Cooperative Extension, the Los Angeles County Community Development Commission and area residents. The program serves as both a training ground for Southern California's green industries and an invitation for public housing residents such as Cisneros to obtain marketable skills. Participants receive classroom training leading to a certificate in horticulture, as well as assistance in topics such as employment readiness, computer literacy, time management and interview presentation. The Growing Experience has also improved the neighborhood: it created a six-acre garden with community plots, which Cisneros oversees.

Kortney Hyrchuk

HOUSTON The University of California was among the nation's research universities that leaped to help when Hurricane Katrina slammed into Louisiana. Not only were official resources offered – UC campuses welcomed students who were displaced by the storm – but thousands of UC students and faculty, health professionals, staff, and alumni contributed time, money and expertise to rescue efforts and to helping survivors.

Kortney Hyrchuk, a 24-year-old neonatal nurse in the intensive care unit at the UC Irvine Medical Center, spent eight days delivering medical services to hurricane survivors gathered at the Astrodome in Houston. She traveled from Southern California with about 50 volunteer nurses recruited by the California Nurses Association. " A lot of people were complaining – about who didn't do this and who didn't do that – I felt like it was important to put your money where your mouth is, so I felt I had to go. I just wanted to help," she says.

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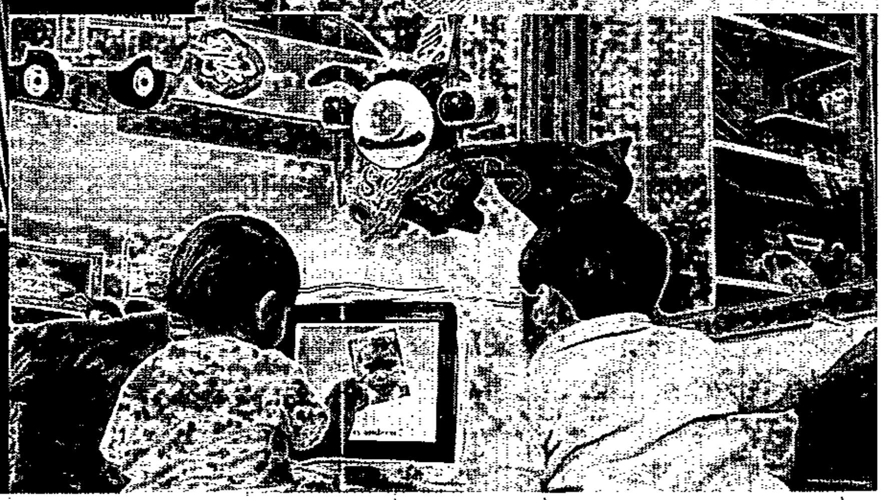

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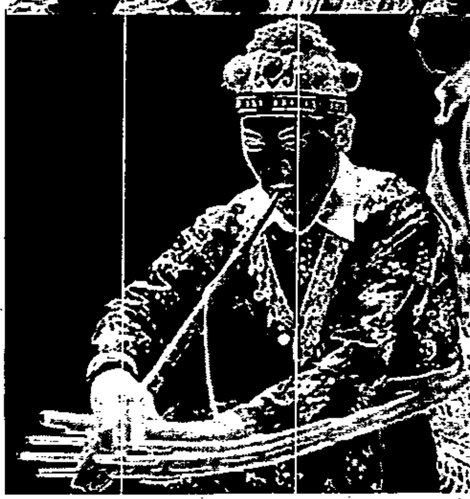

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Celebrating culture is important on UC campuses **24**

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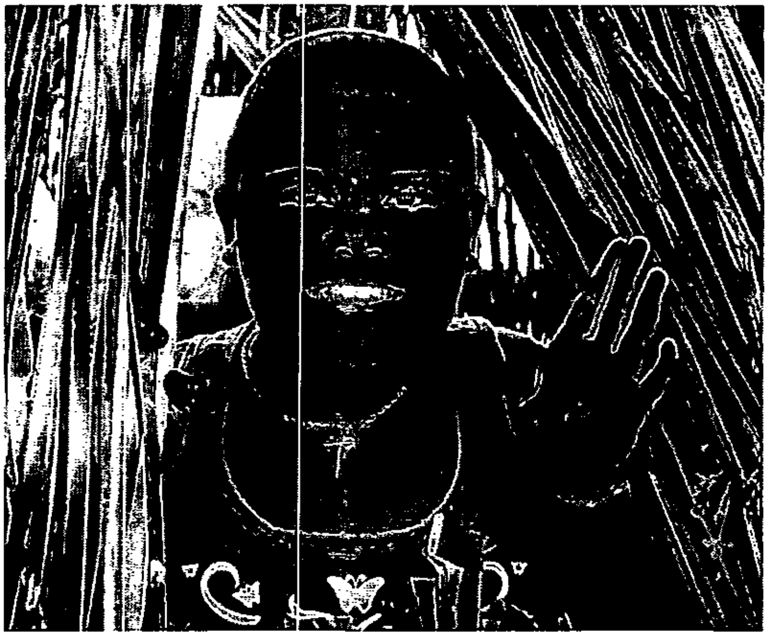
Alpha Center encourages girls in math and technology **26**

Changing

MAURITANIA, AFRICA It's perhaps no surprise that large numbers of UC graduates have joined the Peace Corps. Some people might say that "changing the world," "idealism" and "public service" are synonymous with the University of California. UC Berkeley holds the distinction among U.S. universities and colleges as having turned out the most Peace Corps volunteers – 3,205 – and is the only school that has produced more than 3,000 volunteers since the Peace Corps began in 1961. In 2004, Berkeley had 94 alumni serving, UC Santa Barbara 57, UCLA 55, and UC Davis and UC San Diego, 43 each.

Three Peace Corps volunteers didn't realize they had a Berkeley connection until they met in the West African nation of Mauritania, which is the only Islamic republic with a Peace Corps program. One of them, Luke Wilson Filose, 27, had worked for a Silicon Valley marketing firm, a traveling dance company of HIV/AIDS orphans and an anti-poverty non-governmental organization in Washington, DC, before joining. "I couldn't turn down the opportunity to go abroad, to see life in the developing world from a grassroots perspective, and to try to make a difference on that level," he says.



Science comes to life for elementary school students through Kids in Nature

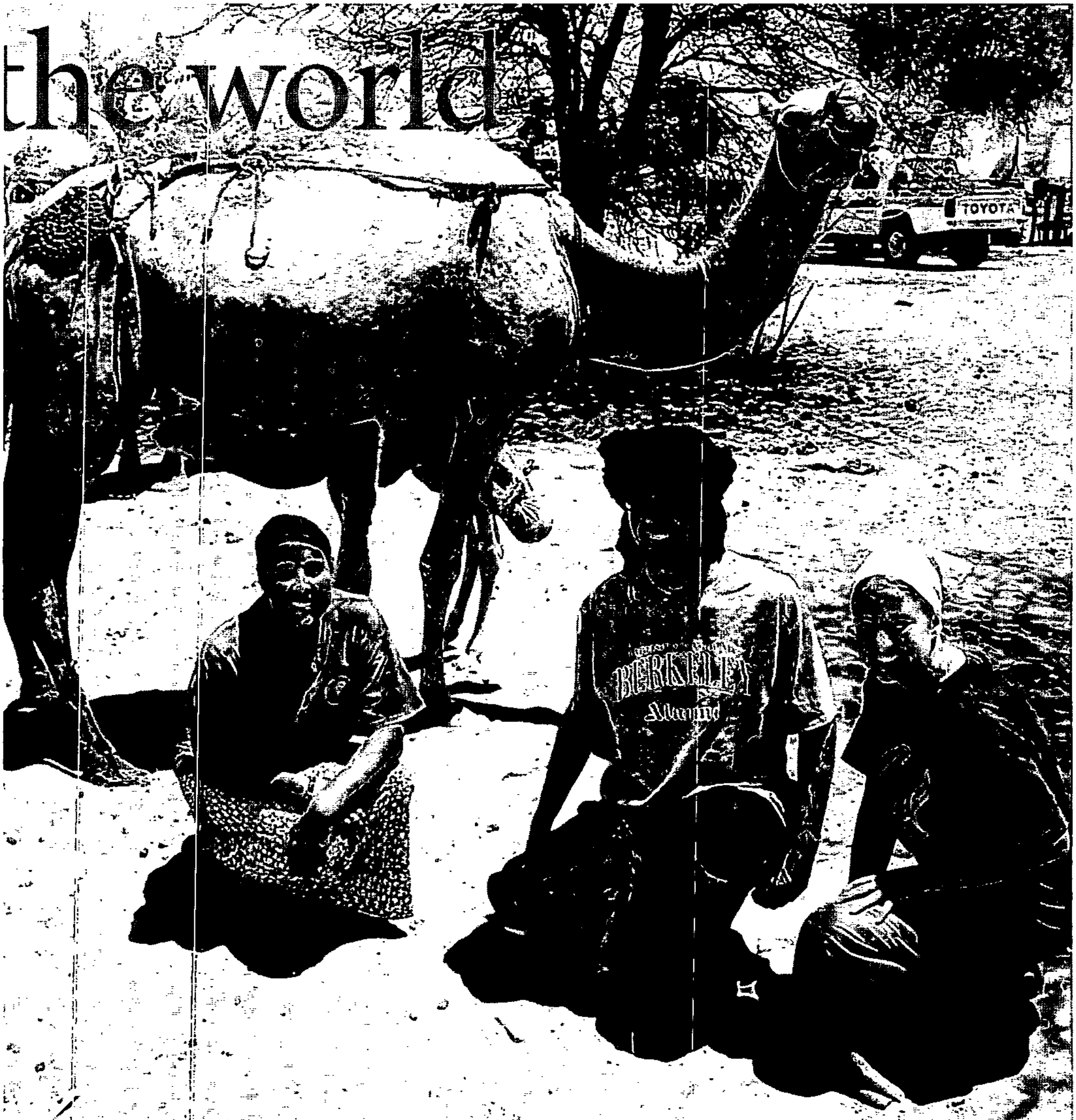
Experiencing nature

SANTA MARIA Students in Linda Corley's fifth-grade class at Ontiveros School in Santa Maria are predominantly Latino, English-learning and from low-income households where experiences in natural outdoor settings are limited. For the last four years, Corley has taken her fifth-graders on monthly field trips to the Sedgwick Reserve. Encompassing nearly 6,000 acres in the Santa Ynez Valley near UC Santa Barbara, Sedgwick, part of UC's Natural Reserve System, is noted for both its large size and its environmental heterogeneity. Corley's students are among the hundreds of underprivileged fourth- through sixth-grade children to experience earth sciences in these remarkable surroundings through UC Santa Barbara's Kids in Nature program.

The program, the brainchild of UCSB adjunct professor Jennifer Thorsch, brings classes to the reserve for regular visits. "When the students are at Sedgwick, they are using all their senses to learn the science that is being presented," Corley explains. Seeing and touching are the obvious ones, but Corley's students also are asked to smell different plants and to taste the edible ones. They not only spot a hawk or Acorn woodpecker flying in the air; they also hear their cries.

SANTA ANA UC graduate students and undergraduates in the health sciences have opened community health clinics throughout California

the world



UC alums and Peace Corps volunteers Adrianna Publico, Luke Filose and Annika Dubrall

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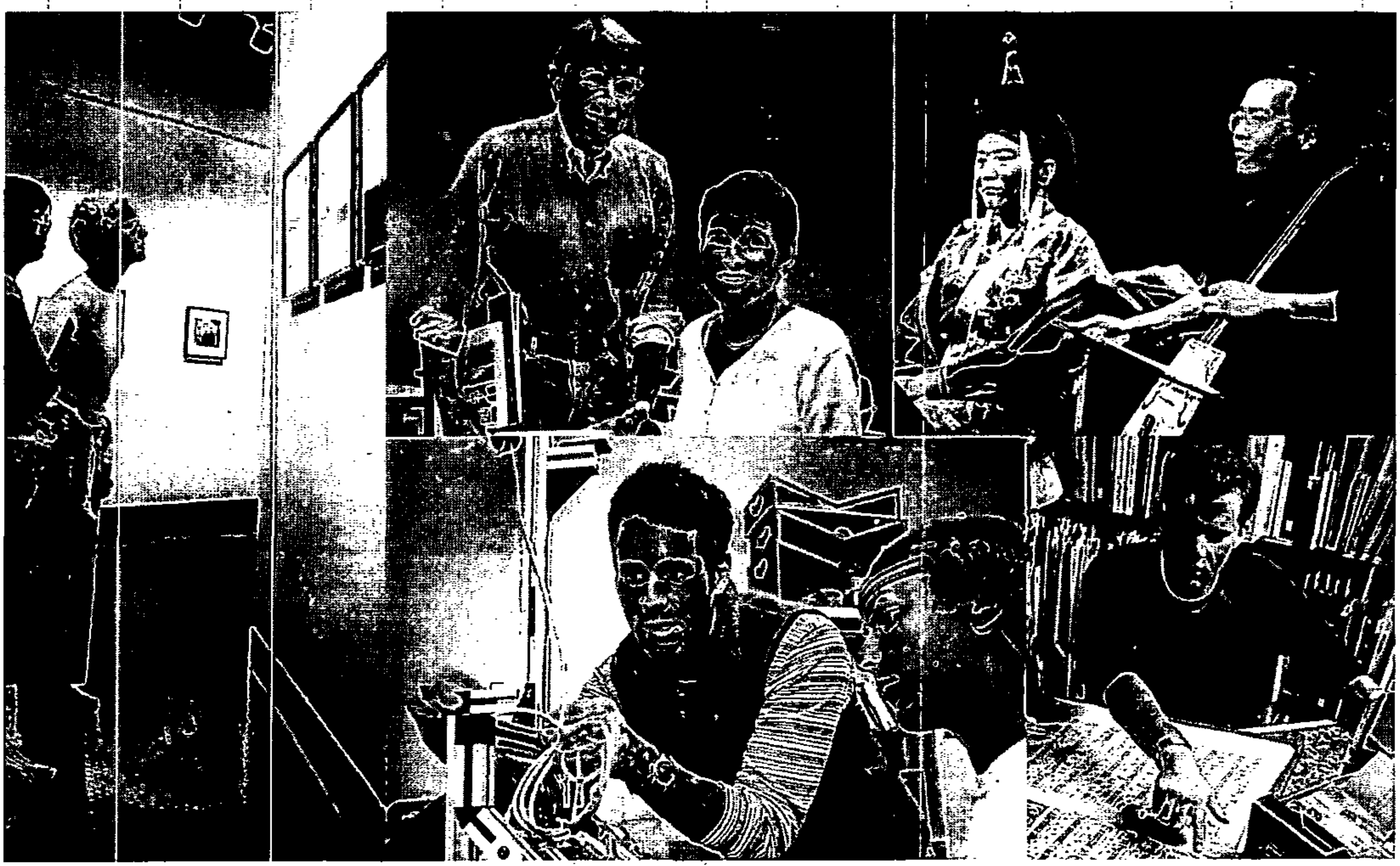

RIVERSIDE The UC Riverside California Museum of Photography promotes understanding of photography and related media through collection, research, exhibition and teaching **32**

WESTWOOD
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UC libraries – the largest educational library system in the world – serve Californians who live and work outside campus borders **36**

Delivering technology

UV Tubes provide clean water to villagers in Sri Lanka

SRI LANKA Access to clean water is always a primary concern in the aftermath of a natural disaster, and the southern Asia tsunami in 2004 was no different. Working with Sarvodaya, a Sri Lanka-based non-governmental organization that focuses on relief and development of local communities, a group of UC Berkeley graduate students traveled to the small island near India to train villagers to construct and install UV Tubes, an affordable water treatment system developed in a Berkeley laboratory.

Not only did the researchers make the design of the UV Tube intentionally simple, they make it freely available, and costs about $40, much like open source computer software. Essentially, water passing through a stainless steel-lined PVC tube is exposed to powerful ultraviolet light that inactivates disease-causing pathogens. The device, which can disinfect one gallon of water per minute and operate on 15 watts of power from a solar panel, has been tested in Mexico and Haiti.

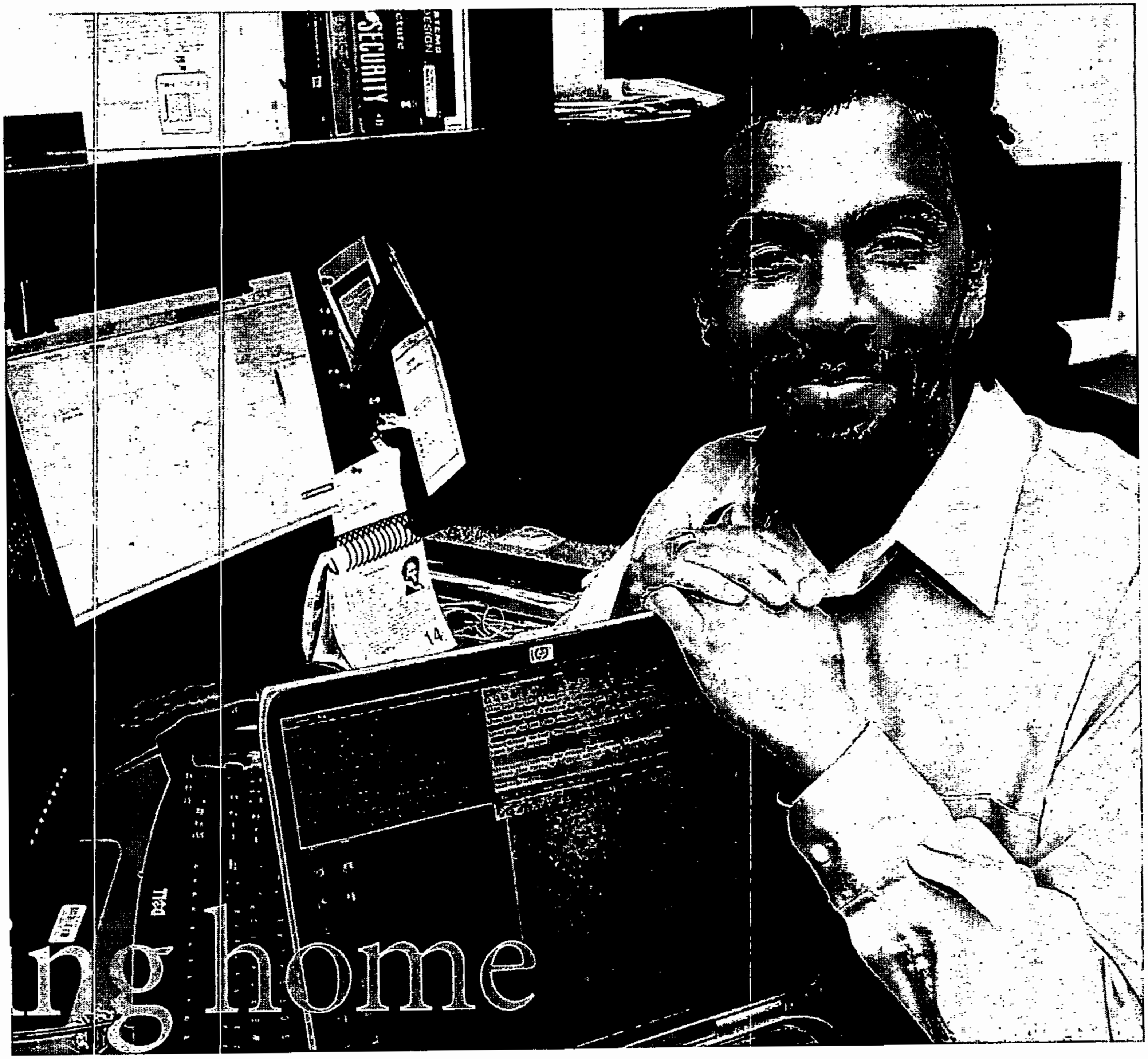
VALLEJO Chad Sterling admits it would have been easy to come to the lab in the morning, get caught up in research all day, and not do anything else. But Sterling, a UC Davis computer science and engineering graduate student who grew up in Vallejo, felt compelled to do more.

A leader of the Black Engineers' Association, the campus chapter of the National Society of Black Engineers whose mission is to increase the number of culturally responsible black engineers who excel academically, succeed professionally and positively affect the community, Sterling sought out an opportunity to tutor and mentor students in Vallejo public schools.

"It brought the college straight to the kids," says Jamie Kearns, a teacher at Springstowne Middle School in Vallejo. Kearns' eighth-grade algebra class was one of those that Sterling visited as part of UC Davis' Math, Engineering and Science Achievement program, which helps students in disadvantaged schools prepare for college. Kearns says many of her students had never known anyone who had gone to college, much less visited one. In addition to the math tutoring, the program enabled them to tour the UC Davis campus, where they saw a familiar face.

"Chad was there, and some of the kids already knew him, which really helped them to make the connection that this could be them one day," Kearns says of Sterling, whose efforts were recognized with a national 2005 Black Engineer of the Year Award in graduate student leadership.

Return



Chad Sterling

Stories behind the images

1 The UC Education Abroad Program provides academic exchanges and integrates international curricula and learning opportunities into the University. Through institutional partnerships and initiatives, the program expands the context and content of learning by exposing students and faculty to the challenges of diverse languages and intellectual traditions, other approaches to knowledge, and different cultural assumptions. In 2005-06, more than 4,500 UC students are expected to study abroad at one of 150 institutions in 35 countries. Through reciprocal agreement, about 1,000 students from EAP's affiliate universities abroad will attend UC.

2 Just as computer software is rendered in long strings of 0s and 1s, the "software" of life is represented by a string of four chemicals, abbreviated as A, T, C, and G. To understand the software of either a computer or a living organism, we must know the order, or sequence, of these informative bits. The Department of Energy's Joint Genome Institute in Walnut Creek combines the powerful DNA sequencing resources of the three UC-managed national laboratories, Lawrence Berkeley, Lawrence Livermore and Los Alamos, to help in the international effort to understand the human genetic code.

3 Each year, UC's five medical centers in California treat more than 125,000 patients, resulting in more than 750,000 patient days, each year. In addition, outpatient visits to physicians in UC-owned medical clinics total more than three million visits annually. By operating hospitals that are responsible for care to uninsured and underinsured patients in Sacramento, San Diego and Orange counties, UC is a major "safety net" health care provider.

4 The UC system has a major impact on the delivery of health care services in California. As the

state's largest university hospital system and the fifth largest health care delivery system, UC provides an unparalleled dimension of integrated patient-care, research and education. The eight licensed general acute care and two licensed acute psychiatric hospitals at the five UC medical centers provide primary care and more than 150 areas of specialty care medicine. Including residents, nurses, technicians and health administrators, UC has more than 18,800 health-care professionals and staff. UC's medical centers also extend their services through community-based offices, affiliations with non-UC medical facilities and regional physicians networks, which link physicians to UC specialists.

5 The Seymour Marine Discovery Center at UC Santa Cruz's Long Marine Laboratory, on the bluffs overlooking Monterey Bay, offers a wide range of marine science learning programs, including programs for school groups, teacher training programs, summer youth programs and docent-led programs for the general public. Like the Birch Aquarium at UC San Diego, the Seymour center is dedicated to educating people about the role scientific research plays in the understanding and conservation of the world's oceans.

6 With pioneering work by the Scripps Insitution of Oceanography at UC San Diego, the University of California has been a leader in ocean science research, allowing us to better understand, appreciate and protect our ocean and planet. Scripps researchers, like this one shown, are involved in long-term ecological research of the California Current, which extends from the Washington-Oregon border to Baja California.

7 California's agriculture industry accounts for more than a million jobs, and the state produces more than half of the nation's fruits, nuts and vegetables. California is the No. 1 agricultural state in the U.S. and the country's leader in agricultural exports. Much of the success of the industry in California can be traced to the influence of UC's research and extension programs. UC conducts agricultural, nutrition and environmental research in more than 50 departments within the UC system and more than 30 research centers and facilities across the state. California's farmers and ranchers have applied UC-derived knowledge and innovations to achieve a steady record of economic growth over the past half century while implementing management and production practices that make their operations the most environmentally compatible, natural-resources-conscious and occupationally safe in the counties they serve.

8 The Synthesis Center at the San Diego Supercomputer Center on the UC San Diego campus brings together groups of collaborating scientists and engineers for face-to-face sessions to address science questions, using the tools provided by cyberinfrastructure. Synthesis is at the heart of important efforts funded by the National Institutes of Health and Department of Homeland Security.

9 The School of Veterinary Medicine at UC Davis is the largest veterinary school in the nation and California's only public veterinary school. It includes a teaching hospital, where faculty and staff treat about 30,000 animal patients a year and where students learn clinical skills involving the diagnosis, treatment and prevention of animal disease in real-world cases. The school is known as an international leader in educating veterinarians in equine health.

10 While working with women in the Santa Cruz County Jail, then UC Santa Cruz grad student Susan Greene (left) became frustrated by what she saw as an endless cycle in which too many inmates, released with little awareness of the resources available to support them, would inevitably be picked up again and again. She launched Getting Out and Staying Out, a bilingual program to help women inmates prepare for a better life after their release. The program has been so successful that it receives funding from the Santa Cruz County Sheriff's Office.

11 UC Davis researchers are studying the effects of West Nile virus on wild bird populations. They work with the California Department of Fish and Game, which has the job of conserving the state's wild birds. The researchers have developed molecular DNA tools to examine whether the virus is changing the population structure of crows, Swainson's hawks and red-tailed hawks statewide.

12 UC performance centers offer hundreds of educational and humanities programs in their communities to school children and adults. Designed to bring artists, audience and ideas together in meaningful ways, these programs serve the heart of the art and cultural centers' mission: to inspire, nurture and sustain a lifelong appreciation of the performing arts.

13 Sarah Amiri, a first-year student at UC Santa Barbara, captured the prestigious 2005 John D. Isaacs Scholarship for her research on toxic algal blooms while a senior at San Marcos High School in Santa Barbara. Amiri's winning marine science project sought to explain causes and cures for a very troubling phenomena off the California coast, that of toxic algal blooms, and her research furthered scientists' understanding of these seemingly random toxic events. The Isaacs scholarship is administered by the California Sea Grant College Program, a UC systemwide program of marine research, extension services and education activities.

14 UC scientists have been at the forefront of advances, breakthroughs and discoveries in medical research and patient care. UCSF scientists, for example, developed an improved magnetic resonance imaging (MRI) device for detecting and monitoring disease 30 years ago and continue to pioneer scientific developments in medical imaging.

15 High school students from one of San Diego's poorest neighborhoods are learning science and preparing for college through an ambitious educational partnership that includes UC Davis. Additionally, the program, Bahia, continues a long-term ecological study in the Bahia de Los Angeles in the Sea of Cortez begun by UC Davis professor Gary Polis,

who died in the bay in a boat accident in 2000. Bahia is a positive influence in the students' lives, helps them grasp science and its importance and fosters self-confidence.

16 Located on an ancient marine terrace overlooking the Monterey Bay, the UC Santa Cruz Arboretum occupies one of the most propitious horticultural sites in the world. The climatic and topographic diversity allows experimentation with almost every species that might be grown along the coast between San Diego and Crescent City, and the diversity of the soils – the underlying rock includes granite, schist, limestone and several types of sandstone – can scarcely be matched anywhere. The Arboretum has introduced many popular drought-tolerant plants into the horticultural trade, including California natives as well as exotic species from Australia, New Zealand and South Africa. The Arboretum is just one example of a great public resource that enriches our communities.

17 UC campuses are helping the state launch the clean-transportation revolution. At UC Davis, the Institute of Transportation Studies, with 40 faculty, 15 research staff and 80 graduate students, is pioneering hydrogen-fuel research and teaching. Sponsors of the hydrogen research include 16 industry partners such as the major automakers and oil companies, Caltrans, the California Air Resources Board, and the federal energy and transportation departments. UC President Robert C. Dynes takes a spin in a hydrogen-powered Toyota SUV.

18 The University of California provides the largest and most comprehensive pediatric medicine capacity in the state. UC's medical centers offer a comprehensive range of pediatric clinical services and research programs, as well as education and advocacy for children and their families. The UCLA and UC San Francisco children's hospitals are among the nation's top ranked pediatric programs. The University's children's hospitals offer pediatric acute care in all areas of pediatric medicine – primary care and more than 40 specialty and subspecialty areas, including perinatal and neonatal units.

19 Charged with completing a $32.5 million four-lane highway construction project in a timely and cost-effective manner, engineers at the California Department of Transportation sought assistance from expert farm advisers at UC Cooperative Extension. The result: a savings of more than $1 million and earlier completion of the project. Just after construction began in March 2004, Caltrans staff noted that the method outlined for saving the topsoil – the first 16 inches of soil typically contains a high level of nutrients, and is typically put aside for future farming activities – was both expensive and ineffective. In search of a solution, Jay Goyal, the Caltrans project engineer, called on UC Cooperative Extension's Khaled Bali, an expert in soils and irrigation engineering, and Herman Meister, agronomy adviser. Within a day, the Extension experts had begun a soil analysis that led them to conclude that saving the top 16 inches of soil wouldn't provide any significant benefits for future agriculture at the site, and that it would be more cost-effective to use that soil to construct embankments in the areas where the existing field hadn't been disturbed. The Federal Highway Administration, which contributed funds for the project, agreed with the recommendation.

20 The breathtaking beauty of Lake Tahoe is known worldwide, but that beauty is fading. The basin is an ecosystem under considerable stress. For 40 years, Professor Charles Goldman and his colleagues at the UC Davis Tahoe Research Group have devoted their work to understanding the complex dynamics between the lake and the surrounding basin. They have recently been joined by scientists from the University of Nevada, Reno, the U.S. Forest Service, the U.S. Geological Survey and the Nevada Desert Research Institute. Collectively, they have assembled a volume of knowledge about that ecosystem that is unparalleled in environmental studies.

21 UC medical students and undergraduate pre-med students have created community health clinics – run by student volunteers – in underserved communities in the cities and in rural settings. UC Irvine medical students founded Clinica Carino that delivers health-care services in a lower-income Santa Ana neighborhood.

22 RUBI (a "Robot Using Bayesian Inference") is the evolving creation of the Machine Perception Laboratory at UC San Diego. RUBI is attending UCSD's Early Childhood Education Center as part of a long-term research study to investigate the uses of interactive computers in educational environments and to advance the field of real-time, social robotics. RUBI is immersed for about an hour at a time in the ordinary activities of the 10- to 24-month old children at the education center. RUBI is capable of tracking heads and detecting faces and basic expressions. RUBI teaches the children songs and, through the touch-screen on her belly, presents them with interactive games so they can learn colors, shapes and other materials targeted by the developmental profile from the California Department of Education.

23 California's North Coastal "upwelling" system is unlike almost any in the world – supporting a nutrient-rich and diverse marine ecosystem in which organisms such as salmon, sea lions, sea birds, blue whales and great white sharks thrive. Similar conditions can be found only in coastal areas of Peru, the Canary Islands and Africa's west coast. Determining what makes this coastal upwelling system so productive and identifying the keys to managing the marine resources that depend on this system are among the critical research issues addressed at UC Davis' Bodega Marine Laboratory on the Sonoma coast.

24 Culture and the arts thrive on UC campuses. Student performers, community and ethnic dancers and musicians, world-renowned artists and cultural icons, and thought-provoking exhibits regularly visit UC's 10 campuses. UC campuses are rich cultural resources for California communities, and are places where community members, students, faculty and staff, and visitors come to practice, enjoy and discover the arts.

25 The UC Davis Telehealth Program promotes technological solutions to improving health care in rural communities. Today, UC Davis partners with many community hospitals and clinics throughout Northern California to provide California residents and their physicians with access to specialized medical care and education through the use of telecommunications technology. Using high-speed data lines linked to video units at the UC Davis Medical Center and outlying California hospitals and clinics, physicians and patients can have a live interactive consultation with a UC Davis specialist by simply dialing him or her up on video.

26 UC Riverside Alpha Center runs eight mathematics and academic preparation academies for public school students, which includes Project GEMS (Girls Excelling in Mathematics with Success) for middle school and high school girls that emphasizes science, technology and attending college. GEMS aim is to motivate the girls to take more math courses and consider careers that are math-based. The program emphasizes community service and exposes the students to successful women role models.

27 As a third-generation farmer and one of the major growers in California's most agriculturally fertile county, Bill Chandler knows as well as anyone about the importance of UC's Kearney Research and Extension Center amid ever-intensifying global competition. "We look to Kearney for sound science to help agriculture grow and thrive," he says. Located in the heart of the San Joaquin Valley, Kearney provides professional management, land, labor and a variety of special-

ized facilities for agricultural and environmental research projects, along with Extension educational activities, for the benefit of all Californians. Over the course of four decades, Kearney scientists have developed novel cultivation, pruning and planting methods for the major valley crops while introducing newer specialty crops such as blueberries and Asian eggplant. Kearney has also been a chief testing ground for sustainable farming methods such as integrated pest management, biological control and water conservation.

28 The University's Education Abroad Program

has had a presence in Western Europe for more than 40 years, and in fact started as a French department exchange between UC Santa Barbara and the University of Bordeaux. Today, more than 2,500 UC students (or 60 percent of Education Abroad participants) are in one of the nine Western European countries with EAP programs. Underscoring the region's importance in the global economy, UC President Robert C. Dynes traveled to France and England in April 2005 to help strengthen the University's partnerships with academic institutions, industry and government there and to meet with UC students, alumni, faculty and staff. Dynes delivered a lecture on "International Partnerships and the Global Future of Higher Education" at Oxford University's Said Business School. In London, he met with scientists at the Royal Society and with government officials and industry leaders to discuss possibilities for more international research exchanges and opportunities for more industry-university collaboration. In Paris, Dynes toured the Louvre Cyclotron and met with French government and academic officials.

29 UC medical schools attract more National

Institutes of Health funding than any other medical educational system in the country – nearly $1 billion in fiscal year 2004 alone. These funds are a crucial investment in research in California. In contrast, the next largest university recipient received less than half of the UC share. UC San Francisco and UCLA are among the Top-10 recipients of NIH awards to medical schools nationally. UC medical discoveries and inventions that have become indispensable to medical practice worldwide include the Positron Emission Tomography (PET) scan, which visualizes metabolic changes in the brain and body, and the isolation of the insulin gene, which led to the mass-production of genetically engineered insulin.

30 UC Berkeley faculty and graduate students

are working with local residents, non-governmental organizations and industry partners in India and Sri Lanka on low-cost, low-power information systems that alert villagers to dangerous weather. One system already in place on the Indian coast saved lives in the catastrophic tsunami that struck Southeast Asia in December 2004. As this villager explains, each day's forecast is downloaded via the Internet and broadcast by bullhorns along the coast to warn of dangerous storms. When the first tsunami hit the beach, the system was used to clear the beach – only three people were lost. The researchers are working to erect wireless networking antennas to provide affordable and easy access to weather conditions for fishermen, crop prices for farmers, health news, and, when possible, warnings of imminent disaster.

31 Some of California's most talented and creative

high school students participate in the California State Summer School for Mathematics and Science (COSMOS) program, a four-week summer residential program offered at UC Davis, UC Irvine, UC San Diego and UC Santa Cruz. Students, chosen based on their excellence in mathematics and/or science, experience what it is like to work in instructional laboratories with leading faculty, researchers and graduate students exploring topics ranging from computer science and molecular biology to oceanography and engineering.

32 Complementing its departments in fine arts,

architecture, music, literature, languages, and ethnic studies, UC is also home to a number of prominent museums, such as UC Riverside's California Museum of Photography (shown) and performing arts centers. Local and internationally acclaimed visual artists, musicians, actors and authors can work and perform in facilities that are widely used not only by UC students and faculty, but also by the general public. Every UC campus mounts a variety of arts and lecture programs, musical events, and cultural activities.

33 Many consumers of university extension

programs seek to gain practical knowledge for self-improvement or career advancement. Not Laurie Brenner (shown on right): The 61-year-old, semi-retired human relations consultant simply wanted to challenge herself by learning more about topics that interest her. At UCLA Extension's Osher Lifelong Learning Institute, Brenner found the perfect setting for her intellectual pursuits. UCLA Extension recently launched the institute, one of 61 funded nationwide by the Bernard Osher Foundation (several other UC campuses are home to Osher institutes) to provide opportunities for adults 50 and older interested in the sheer joy of learning to be taught, along with like-minded individuals from the community, by UCLA Extension's expert instructors.

34 UC faculty use technology in imaginative ways to enrich their students' learning experience and in this way conveying information in novel ways. Here, UCLA professor Dario Nardi shows a student how to set up a class robot. Using simple programming language, Nardi's students teach a robot – represented by expressive faces on students' monitors – social skills that mimic human responses. The professor won a campus Copenhaver Award for Innovation in Teaching with Technology in 2005.

35 Yo-Yo Ma is a internationally acclaimed cellist who is among the world-class artists who regularly perform on UC campuses. He is an artist who is strongly committed to educational programs that bring young audiences into contact with music and the arts. Here, he performs at UCLA.

36 In addition to faculty and students, UC libraries – the largest educational library system in the world – serve Californians who live and work outside campus borders. In 2001, in fact, more than 15 percent of borrowing from UC libraries was by non-UC patrons. Moreover, library resources such as computers, databases, classes and outreach programs are available to the public and widely used. UC libraries have taken advantage of modern information technology to make their holdings even more accessible to the public. For example, the California Digital Library provides Internet-access to special collections and archival material, supplementing the physical collections. The Online Archive of California, part of the digital library, provides access to more than 6,000 collections of manuscripts and artwork in California; the majority of the searches of this archive have been by non-UC users.

MESSAGE FROM THE SENIOR VICE PRESIDENT

In May 2004, Governor Schwarzenegger and President Dynes entered into a Compact that provided a multiyear framework for stabilizing state support to the University. With the signing of the 2005-06 state budget in July, the Governor honored the Compact, providing a $134 million, or 5 percent, increase in the University's state allocation to cover enrollment growth, increases in faculty and staff compensation, the opening of the UC Merced campus and an initiative to expand the training of K-12 science and math teachers, among other items.

Stabilizing state support is an essential first step toward reversing the impact on the University of several years of substantial budget cuts. Yet, the University faces significant challenges as it seeks to preserve the quality of its programs and historic commitment to guaranteeing access to all eligible students. Including the 6 percent cut taken in 2004-05, the University's state support has declined 15 percent over the last four years. During the same period, student enrollment has increased 19 percent, as the University has continued to meet its commitment to accept the growing number of eligible students. These recent state budget cuts only accelerate a longer term trend of declining state support for higher education in California. The University's share of the state's General Fund has dwindled from 7 percent in 1970 to approximately 3.5 percent today.

The University is fortunate to have multiple sources of revenue. As it absorbed another reduction in state funding in 2004-05, the University enjoyed modest gains in federal, state and private grants and contracts. Overall revenues from the five medical centers increased nearly 8 percent. Private gifts to the University also remained strong in 2004-05. While gifts to the University have grown substantially in recent years, it is important to recognize that the vast majority of these gifts come to the University as restricted funds. Funding from the state, along with student fees, continues to pay for the core programs that are essential to the University's ability to maintain excellence in its teaching and research.

Despite reduced state support, the University has continued to invest in the facilities and infrastructure essential to accommodate a rapidly growing student population and to maintain the extraordinarily rich and varied instructional and research programs that constitute the core of the University's mission. The state has assisted with support for a portion of the University's capital program.

Despite the fiscal challenges of recent years, UC Merced opened its doors this September to its first students. In doing so, the Merced campus becomes the first new research university in the country to open in the 21st century. The presence of a new University of California campus in the heart of the Central Valley promises to expand educational opportunities to a region of the state that has been vastly underrepresented at the University.

The California Institutes of Science and Innovation facilities have been completed at the San Diego, Santa Cruz, Irvine and San Francisco campuses and will be completed at Santa Barbara by the end of 2005. Financed by state, federal and private contributions, the Institutes are a billion-dollar effort bringing together multiple scientific disciplines to expand the California economy into new industries and markets while shrinking the amount of time that elapses between discovery in the laboratory and practical application.

Build-out of UC San Francisco's new Mission Bay campus continues with the completion this year of the Quantitative Biomedical Research Building, a new campus community center and four housing units. These facilities, added to the two existing biomedical research buildings, total 1.34 million square feet of what is projected to be 2.65 million square feet of buildings on the Mission Bay campus. In addition, construction of two parking structures was completed this year, with a combined total of over 460,000 square feet.

The University has increased the percentage of students housed on campuses even as the University has absorbed the extraordinary enrollment growth caused by Tidal Wave II. Between 1999-00 and 2004-05, the University has increased beds on campuses from 40,500 to 56,000. By 2010-11, the University will house, in currently approved projects, at least 33 percent of its students on campus, up from less than 24 percent in 1999-00. In addition to student housing, many campuses — such as Irvine, Davis, Santa Barbara and Santa Cruz — have built, or are planning to build, more on-campus housing for staff and faculty.

To maintain quality and access in these times of constrained budgets, the University must seek ways to reduce costs in its business operations. In 2004-05, the University continued efforts to streamline and restructure administrative processes to gain efficiencies and exploit other opportunities to reduce costs. I would like to mention just a few of the many efforts throughout the University to save money and reduce costs:

- The Office of the President and the University's teaching hospitals have worked diligently to secure cost savings and to ensure that Medicaid reimbursements are aligned with the health-care services provided. Several cost-savings efforts deserve special mention:. In the last year, the University moved to ensure that the teaching hospitals were protected in the shift to a new Medicaid waiver. That waiver allows hospitals to draw federal funds to pay for care to the poor and uninsured. UC hospitals have the opportunity to secure $461 million in baseline federal funding under a new MediCal waiver for the next five years, as well as additional stabilization funding. The University also captured $106 million in Medicaid supplemental funds that were due to the teaching hospitals for 2003-05 operations. In addition, the teaching hospitals gained savings from purchasing contracts for pharmaceuticals and medical surgical supplies.
- As the University faces steeply rising construction costs, improving the efficiency and effectiveness of project delivery processes assumes particular urgency. In December 2004, the University brought together a committee of six outside experts to examine the University's current construction practices and policies to determine opportunities for reducing costs and streamlining project delivery from conception through design and construction. The committee recently presented its findings, with recommendations focused on individual accountability for performance of campus capital programs, simplifying and streamlining project delivery processes and emphasizing formal business case analysis for capital planning and project decision-making.
- As a result of the Strategic Sourcing Initiative, the University has put in place a number of contracts that seek to leverage the size of the institution's purchasing power to reduce procurement costs. As an indication of the success of the ongoing strategic sourcing efforts, the University won U.S. Bank's "Best-In-Class" award in May 2005 for its Purchasing Card (P-Card) program. Considering a mid-year conversion to the new strategic sourcing contract, the University has achieved a [illegible] percent annualized increase in spending on the card program with incentive dollars increasing 20 percent over the last year, to over $3 million. The University will continue to move forward with a number of contracts that exploit systemwide purchasing power to secure favorable pricing.
- With interest rates near historic lows, the University is refinancing debt to substantially reduce costs of debt service. Two years ago the University refinanced $1.1 billion of outstanding bonds. In July 2005, the University refinanced an additional $562.6 million in outstanding bonds, gaining $25.8 million in present value savings over the next 30 years for a variety of University projects. In addition, the University has modernized its financing structures for instructional, research, auxiliary and medical center projects to take advantage of the full spectrum of available credit and structuring strategies and to increase the institution's debt capacity. The University is continuing to explore opportunities to capitalize on the market's low interest rates and plans to issue additional debt this fall to lock in historically low interest rates for construction to be undertaken in the next two years.
- Since July 2004, all University projects are meeting, or exceeding, the standards set forth in the Green Building Design and Clean Energy Policy adopted by the UC Board of Regents in 2003. The policy offers significant opportunities to reduce long-term costs by increasing energy efficiency and securing savings in operations and maintenance over the useful life of University facilities. Building on this existing policy, The Regents recently authorized development of guidelines to advance sustainable transportation practices across the University campuses. In addition to establishing University benchmarks for reducing greenhouse gas emissions and setting other goals, the guidelines will also establish a framework for evaluating the economic and environmental costs of petroleum and other transportation fuels, with the goal of determining a least-cost economic and environmental strategy for campus fleets.
- Efforts to streamline administrative processes and reduce operational costs have been actively pursued at campuses, as well as at the systemwide level. A number of campuses have instituted their own initiatives to reduce costs by increasing operational efficiencies. UC Santa Cruz, for example, reported to The Regents in June 2005 on a major initiative undertaken by the campus to reduce administrative costs by re-thinking business processes in the areas of strategic sourcing and e-procurement, human resources, academic and financial information systems and information technology. Other campuses have implemented similar efforts to examine administrative services with the goal of streamlining delivery of those services.

Opportunities to reduce costs extend beyond streamlining of business operations. Unfunded statutory mandates imposed on the University have added significantly to the University's administrative burden in recent years. A UC Irvine study determined that between 1990-91 and 2004-05, state and federal regulations and statutory mandates have increased by 96 percent, affecting administrative workload in accounting, environmental health and safety, human resources and procurement. Using a composite of five administrative workload indices, the study identified a workload increase of 80 percent over the 14-year period. Through efficiency improvements, that workload increase has been absorbed by essentially the same number of employees.

s declining state support strains the ability of the University to meet its mission, the University has recently re-focused its esources on effective responses to legislation that has significant fiscal impacts on the institution. The University has also moved udiciously toward a more pro-active role in sponsoring legislation that may provide the University with opportunities to increase efficiency and cost-effectiveness in its business and financial enterprises. For example, the University successfully sponsored SB 439 (Simitian) to clarify current law to ensure the University continues to be able to participate in investment partnerships and the public is adequately informed regarding those investments. That portion of the University's investment portfolio has returned over 37 percent annually over the past 10 years — totaling over $1 billion. The University is also sponsoring legislation to amend the University's competitive bidding requirements. The proposed amendments would provide the University with greater flexibility in carrying out construction work and generate significant savings while preserving the protections of public funds in existing statute.

The University of California remains the pre-eminent public institution of higher education in the world. A number of recent studies ranking universities in the nation and the world affirm the extraordinary quality and productivity of the University's instructional and research programs. Yet, long term declines in state support threaten the University's eminence among national and international institutions of higher education. The University faces increasing challenges as it seeks to maintain the remarkable breadth and quality of its programs while continuing to honor its commitment to the state to provide access to a rapidly growing population of eligible students. In times of constrained support, it is imperative that the University push aggressively to reduce operational costs to ensure available resources are directed to core programs. The University's challenge of maintaining program excellence and access is ultimately connected to the University's central role in perpetuating the vitality and competitiveness of the state of California's knowledge-based economy and the scientific and technological innovation on which that economy rests.

Joseph P. Mullinix
Senior Vice President—Business and Finance

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California's financial statements better understand the financial position and operating activities for the year ended June 30, 2005, with selected comparative information for the years ended June 30, 2004 and 2003. Certain revisions in classification, for comparability or for recent changes to accounting principles, have been made to the prior year information in order to correspond to the current year presentation. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2003, 2004, 2005, 2006, etc.) in this discussion refer to the fiscal years ended June 30.

The University of California's financial report communicates financial information for the University of California (the University), the University of California campus foundations (campus foundations) and the University of California Retirement System (the UCRS) through five primary financial statements and notes to the financial statements. Three of the primary statements, the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows, present the financial position, changes in financial position and cash flows for the University and the affiliated campus foundations. The financial statements for the campus foundations are presented discretely from the University. Two of the primary statements, the statements of plans' fiduciary net assets and statements of changes in plans' fiduciary net assets, present the financial position and operating activities for the UCRS. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

THE UNIVERSITY OF CALIFORNIA

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research and public service. The University has an annual budget of over $19 billion and encompasses ten campuses, five medical schools and medical centers, three law schools and a statewide Division of Agriculture and Natural Resources. The University also operates and manages three national laboratories for the U.S. Department of Energy.

Campuses. The ten campuses are located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. All of the campuses offer undergraduate, graduate and professional education; the San Francisco campus is devoted exclusively to the health sciences. The Merced campus opened this fall with an inaugural class of 875 students.

Health sciences. The University operates one of the nation's largest health science and medical training programs. The instructional program is conducted in 15 health sciences schools on six campuses. They include five medical, two dental, two nursing, two public health and two pharmacy schools, in addition to a school of optometry and a school of veterinary medicine. The University's medical schools play a leading role in the development of health services and advancement of medical science and research.

Law schools. The University has law schools at Berkeley, Davis and Los Angeles. Also, the Hastings College of the Law in San Francisco is affiliated with the University.

Agriculture and Natural Reserves. The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves a large and diverse agricultural community. The division conducts studies on the Berkeley, Davis and Riverside campuses, on nine research and extension centers and on private land in cooperation with California producers. In addition, research and educational programs are conducted in each of the state's 58 counties. The Natural Reserve System includes 130,000 acres of protected natural land available for university-level instruction, research and public service.

University Extension. The foremost continuing education program of its kind in size, scope and quality of instruction, University Extension offers more than 18,000 self-supporting courses statewide and in several foreign countries.

National laboratories. Under contract with the U.S. Department of Energy (DOE), the University operates and manages the Ernest Orlando Lawrence Berkeley National Laboratory and the Lawrence Livermore National Laboratory in California and the Los Alamos National Laboratory in New Mexico. The laboratories conduct broad and diverse basic and applied research in nuclear science, energy production, national defense and environmental and health areas.

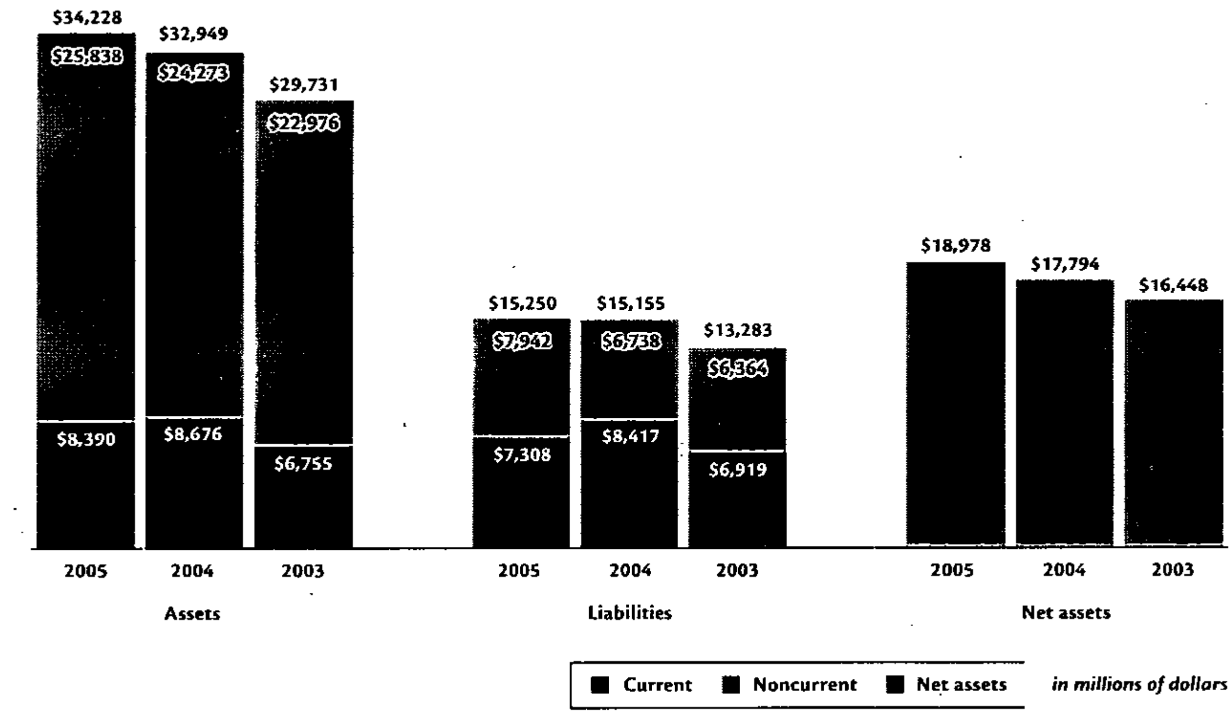
Adoption of New Accounting Standards

The University's financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB).

During 2005, the University adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Although there is no effect on net assets or changes in net assets resulting from this Statement, the investments and securities lending footnotes have been expanded to provide additional information related to common risks of investments.

In addition, during 2005 the University also adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss. The effect of the implementation of Statement No. 42 was not significant to the University's net assets or changes in net assets for 2005 and there was no effect for 2004.

The University's Financial Position



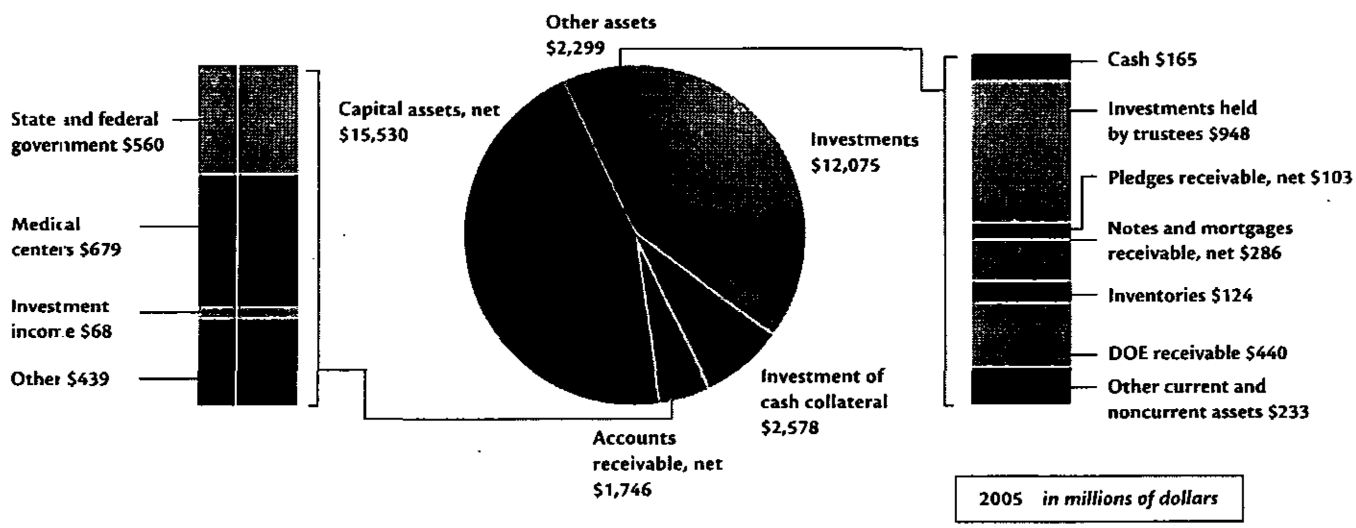
The statement of net assets presents the financial position of the University at the end of each year. It displays all of the University's assets and liabilities. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the University. At June 30, 2005, the University's assets were over $34 billion, liabilities were over $15 billion and net assets were nearly $19 billion, an increase of $1.18 billion from 2004. Net assets increased by $1.35 billion at the end of 2004 from 2003.

The major components of the assets, liabilities and net assets as of 2005, 2004 and 2003 are as follows:

(in millions of dollars)

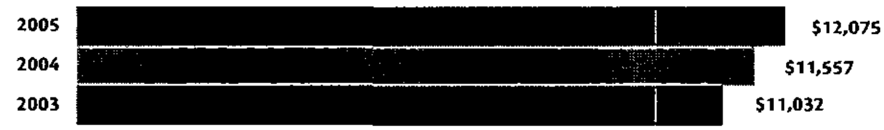
	2005	2004	2003
ASSETS			
Investments	$12,075	$11,557	$11,032
Investment of cash collateral	2,578	3,614	2,367
Accounts receivable, net	1,746	1,778	1,704
Capital assets, net	15,530	14,167	12,654
Other assets	2,299	1,833	1,974
Total assets	**34,228**	**32,949**	**29,731**
LIABILITIES			
Debt, including commercial paper	7,945	6,913	6,354
Securities lending collateral	2,578	3,615	2,367
Other liabilities	4,727	4,627	4,562
Total liabilities	**15,250**	**15,155**	**13,283**
NET ASSETS			
Invested in capital assets, net of related debt	8,108	7,560	6,845
Restricted:			
Nonexpendable	823	776	739
Expendable	4,556	4,325	4,126
Unrestricted	5,491	5,133	4,738
Total net assets	**$18,978**	**$17,794**	**$16,448**

The University's Assets



The University's total assets have grown to $34.23 billion in 2005, compared to $32.95 billion in 2004 and $29.73 billion in 2003, primarily from increases in investments and capital assets, although a substantial portion of the capital assets were financed.

Investments *(in millions of dollars)*



The University's investments totaled $12.08 billion at the end of 2005, $3.89 billion classified as a current asset and $8.19 billion as a noncurrent asset. Investments classified as current assets are generally fixed or variable income securities in the Short Term Investment Pool (STIP) with a maturity date within one year. Given the current interest rate environment and near-term outlook, maturities in the STIP have been shortened relative to 2004. Noncurrent investments are generally securities in the General Endowment Pool (GEP), other pools or securities that are separately invested, in addition to fixed or variable income securities in the STIP with a maturity date beyond one year. The University's investments, by investment pool, are as follows:

(in millions of dollars)

	2005	2004	2003
STIP	$ 6,907	$ 6,842	$ 6,844
GEP	4,738	4,339	3,983
Other	430	376	205
University investments	$12,075	$11,557	$11,032

Overall, investments increased by $518 million in 2005. Investments in the STIP increased by $65 million primarily due to $207 million of STIP investment income, partially offset by $56 million net depreciation in the fair value of STIP investments held at the end of 2005 as short-term interest rates continued to rise, and the routine timing of cash collections and payments. Investments in the GEP and other securities increased by $453 million primarily as a result of $130 million of investment income and $334 million of net appreciation in the fair value of investments, partially offset by $187 million of annual income distributions to be used for operating purposes in 2006.

During 2005 the University recorded $278 million of net appreciation in the fair value of investments. The net appreciation in the fair value of investments incorporates all changes in fair value, including both realized and unrealized gains and losses. The sale of investments during the year resulted in a net realized gain of $205 million, consisting of $10 million in the STIP and $195 million in the GEP and other investments. The security sales in GEP were necessary as part of the continuing transition of the University's equity investment strategy from internal management to multiple external managers. The net unrealized appreciation during the year in the fair value of investments held at the end of the year was $73 million, consisting of unrealized depreciation in the STIP of $66 million that was more than offset by unrealized appreciation in the GEP and other securities of $139 million.

Investments in 2004 of $11.56 billion grew from $11.03 billion in 2003, an increase of $525 million. Investments in the STIP decreased by $2 million primarily due to $198 million of net depreciation in the fair value of STIP investments held at the end of 2004 as interest rates began to rise, substantially offset by $185 million of STIP investment income and the routine timing of cash collections and payments. Investments in the GEP and other securities increased by $527 million as a result of increased endowments, $120 million of investment income and $489 million of net appreciation in the fair value of investments, partially offset by $182 million of annual income distributions used for operating purposes in 2005. In addition, although the investment style did not change, the University transferred certain charitable trust assets from the GEP into other investment pools throughout the year.

The total investment return for the GEP, representing the combined income plus net appreciation in the fair value of investments, for 2005 and 2004 was 10.3 percent and 14.7 percent, respectively. The investment return for the STIP during 2005 and 2004 were 3.6 percent and 3.4 percent, respectively

In the process of implementing the November 2002 Regents-approved changes to the equity investment strategy, the GEP continues its transition from internal management to multiple external managers and from a single, actively managed large capitalization strategy to a range of equity strategies. During 2003, the internally managed U.S. common stocks were transferred into a Russell 3000 Tobacco Free Index fund intended to mirror the returns of the broad U.S. stock market. In 2004 and 2005, the University began to hire additional external managers to continue the diversification and transfer some of the holdings out of the index fund. This transition will continue into 2006.

Investment of cash collateral *(in millions of dollars)*

The University participates in a securities lending program incorporating securities owned by both the University and the UCRS as a means to augment income. It is managed as a single program. For financial reporting purposes, cash collateral and the associated liability related to securities specifically owned by either the University or the UCRS and lent to borrowers are directly reported in the appropriate entity. Cash collateral and the associated liability related to securities in investment pools jointly owned by both the University and the UCRS and lent to borrowers are allocated to each entity on the basis of their proportional ownership.

At the end of 2005, the investment of cash collateral and the associated liability for collateral held by the University for securities on loan at the end of the year decreased from 2004 by $1.04 billion. Fewer domestic equity securities specifically owned by the University were loaned to borrowers for cash collateral at the end of the year. During 2005, interest rates were above 2004 levels leading to an increase in both gross income and rebates, although there was a slight reduction in net income for the overall program.

At the end of 2004, there was a $1.25 billion increase in the University's investment of cash collateral compared to 2003. During that year, rising interest rates and a positively sloping yield curve stimulated the lending activity for U.S. government securities, the largest component of lending for cash collateral.

Accounts receivable, net *(in millions of dollars)*

Accounts receivable include those from the state and federal governments, associated with medical centers for patient care, from investment activity and from others, including those related to private and local government grants and contracts and student tuition and fees. Receivables decreased by $32 million in 2005. Federal and state government receivables and various other receivables collectively declined by $9 million and $35 million, respectively, however medical center receivables grew by $12 million.

In 2004, accounts receivable increased by $74 million from 2003. Receivables from federal and state governments increased only slightly. The medical centers' receivables increased by $41 million from 2003, consistent with medical center revenue growth. Investment income receivables dropped by $6 million and other receivables increased by $26 million primarily due to the timing of routine investment sales.

Capital assets, net *(in millions of dollars)*

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. Capital assets, net of accumulated depreciation, increased by $1.36 billion to $15.53 billion in 2005 and by $1.51 billion to $14.17 billion in 2004.

Capital asset activity consists of the following:

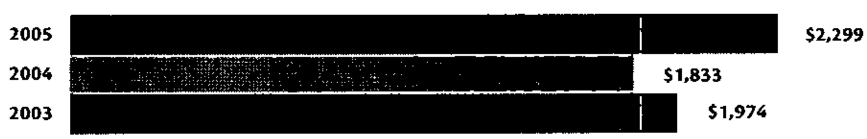
(in millions of dollars)

	2005	2004
Capital expenditures:		
Land and infrastructure	$ 59	$ 86
Buildings and improvements	1,418	903
Equipment	453	548
Libraries and special collections	124	112
Construction in progress, net	317	818
Capital expenditures	2,371	2,467
Depreciation and amortization expense	(955)	(900)
Asset disposals, net	(53)	(54)
Increase in capital assets, net	$1,363	$1,513

As has been the case in recent years, the required spending for capital assets continues at a brisk pace in order to provide the facilities necessary to accommodate current and future enrollment growth. These facilities include core academic buildings, libraries, student services, housing and auxiliary enterprises, health science centers, utility plants and infrastructure and remote centers for educational outreach, research and public service. Overall capital spending declined by 3.9 percent in 2005, although a significant amount of the spending continues for projects still under construction. At the end of 2005, the cost of projects under construction increased by $317 million, particularly at UCLA for both campus and health care facilities, bringing construction in progress at the end of the year to $3.31 billion. Construction in progress was $2.99 billion at the end of 2004 and $2.18 billion at the end of 2003.

Accumulated depreciation and amortization was $10.25 billion in 2005, $9.92 billion in 2004 and $9.29 billion in 2003. Depreciation and amortization expense was $955 million for 2005 and $900 million for 2004. Disposals in both years generally were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets *(in millions of dollars)*

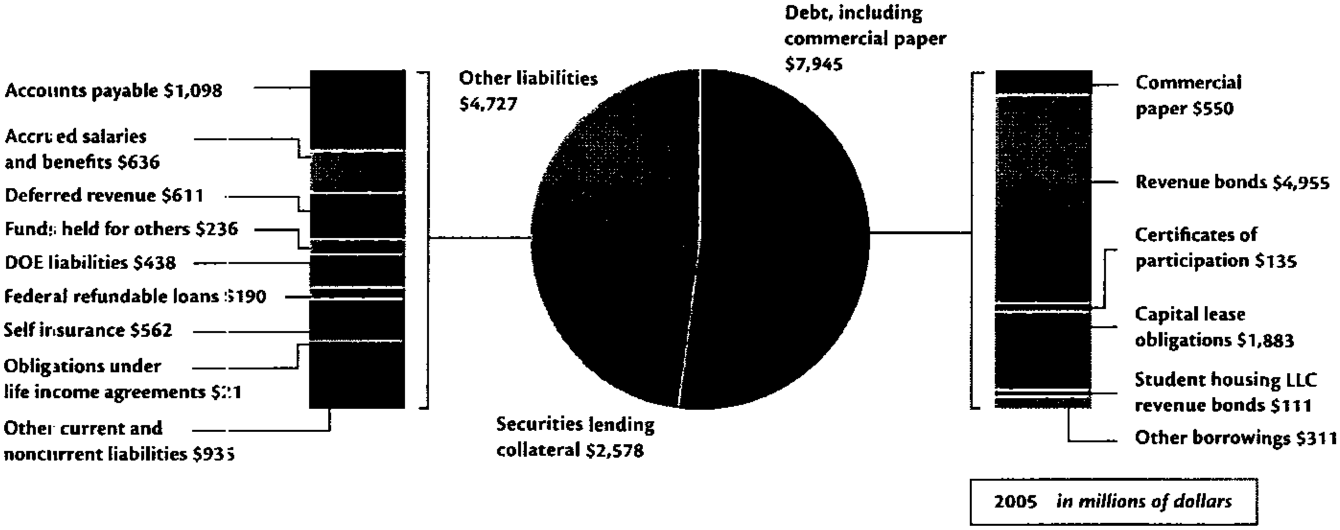


Other assets, including cash, investments held by trustees, pledges receivable, notes and mortgages receivable, inventories and a receivable from the DOE, increased by $466 million in 2005, mainly associated with cash and investments held by trustees.

Cash grew by $93 million due to deposits-in-transit awaiting investment in the STIP. Investments held by trustees at the end of 2005 increased by $373 million. Trustee-held investments associated with self-insurance programs were $70 million higher as the contributions to the trust were greater than claim payments made this year. Trustee-held investments associated with long-term debt grew by $303 million, $98 million related to proceeds from University debt offerings to be used for capital projects still under construction and $205 million for spending on capital projects that are supported by lease-purchase financing with the state of California. Proceeds from the sale of the state's lease revenue bonds are held and invested by the trustee, then distributed to the University as the projects are constructed.

In 2004, other assets decreased by $141 million, mainly associated with the use of proceeds from debt offerings maintained by trustees until required for capital projects and collections on amounts owed to the University by the Federal Emergency Management Agency (FEMA).

The University's Liabilities



The University's liabilities grew to $15.25 billion in 2005, compared to $15.16 billion in 2004 and $13.28 billion in 2003, principally a result of debt issued to finance capital expenditures that is nearly offset by lower securities lending collateral.

Debt, including commercial paper *(in millions of dollars)*

Capital assets are financed from a variety of sources, including University equity contributions, federal and state support, revenue bonds, certificates of participation, bank loans, leases or structures that involve separate legal entities. Commercial paper and bank loans provide interim financing. The University's debt used to finance capital assets, including $550 million of commercial paper outstanding at the end of all three years, grew to $7.95 billion at the end of 2005, compared to $6.91 billion at the end of 2004 and $6.35 billion at the end of 2003.

Commercial paper is classified as a current liability. The current portion of long-term debt, excluding commercial paper, declined to $450 million in 2005 from $587 million in 2004, primarily as a result of a $173 million drop in interim loans from the state for capital projects refinanced by the state's issuance of lease revenue bonds. However, at the end of 2005, the current portion of long-term debt still includes over $130 million of these interim loans from the state for capital projects that will be refinanced as lease revenue bonds are issued by the state in the future.

Outstanding debt increased by $1.03 billion in 2005 and $559 million in 2004. A summary of the activity follows:

(in millions of dollars)

	2005	2004
ADDITIONS TO OUTSTANDING DEBT		
General Revenue Bonds	$ 283	$ 1,300
Limited Project Revenue Bonds	372	
Hospital Revenue Bonds		256
Capital leases	702	77
Student Housing LLC Revenue Bonds	110	
Other borrowings	287	453
Other, including bond premium, net	14	69
Additions to outstanding debt	**1,768**	**2,155**
REDUCTIONS TO OUTSTANDING DEBT		
Refinancing and prepayments	(510)	(1,357)
Scheduled principal payments	(204)	(204)
Payments on other borrowings	(21)	(18)
Other, including deferred financing costs, net	(1)	(17)
Reductions to outstanding debt	**(736)**	**(1,596)**
Net increase in outstanding debt	**$ 1,032**	**$ 559**

During 2005, additions to outstanding debt totaled $1.77 billion, including bond premiums of $14 million. In August 2004, The Regents authorized the University to issue Limited Project Revenue Bonds to finance auxiliary enterprises, collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. Subsequently, in September 2004, Limited Project Revenue Bonds totaling $372 million were issued. The proceeds from these bonds were used to finance new facilities, pay issuance costs and repay interim financing incurred prior to the issuance of the bonds. In January 2005, General Revenue Bonds totaling $283 million were issued. These proceeds were used to finance new facilities, pay issuance costs and repay interim financing incurred prior to the issuance of the bonds.

In December 2004, April 2005 and June 2005, the University entered into lease-purchase agreements, recorded as capital leases, totaling $627 million with the state to finance the construction of various University projects. The state provides financing appropriations to the University to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to the University. In addition, other new capital lease obligations, generally for equipment, totaled $75 million.

The University also entered into a ground lease with a legally separate, non-profit corporation that is developing and will own a student housing project on a campus through the use of a single-project limited liability corporation (LLC). The LLC, through its conduit issuer, issued Student Housing Revenue Bonds totaling $110 million to finance the construction of a student housing facility. The bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing project, and do not constitute general obligations of the University. Further, the University is not responsible for any payments related to the ownership, operation or financing of the student housing. However, under GASB requirements, the financial position and operating results of this legally separate organization are incorporated into the University's financial reporting entity.

Other newly originated borrowings in 2005 totaled $287 million, primarily loans from commercial banks to provide interim financing as a supplement to commercial paper or for capital projects supported by gifts to be received in the near future.

Reductions to outstanding debt in 2005 were $736 million, primarily consisting of $510 million for one-time principal payments for the refinancing or refunding of previously outstanding capital leases ($10 million), payments on interim loans from the state as lease-revenue bonds were sold ($173 million) and refinancing of previously outstanding bank loans ($327 million); $204 million for principal payments associated with scheduled debt service on revenue bonds, certificates of participation and capital lease obligations; and $21 million for scheduled payments on other borrowings.

The state of California, primarily through state financing appropriations, provided $142 million and $122 million in 2005 and 2004, respectively, of the University's debt service requirements, mainly under the terms of lease-purchase agreements that are recorded as capital lease obligations.

Subsequent to the 2005 year-end, in July 2005, the University issued $558 million of General Revenue Bonds to refinance certain facilities of the University. Proceeds, including a bond premium of $33 million, together with certain University funds were used to refund $439 million of outstanding Multiple Purpose Projects Revenue Bonds, $43 million of Research Facilities Revenue Bonds and $81 million of certificates of participation.

In addition, in October 2005, General Revenue Bonds totaling $353 million were sold. Proceeds include a bond premium of $7 million and are available to finance new facilities, pay for issuance costs and repay interim financing incurred prior to the issuance of the bonds.

Also in October 2005, the University is proceeding with an offering statement for the issuance of Limited Project Revenue Bonds totaling $618 million. The proceeds from these bonds will be available to finance certain auxiliary enterprises, pay for issuance costs and repay interim financing incurred prior to the issuance of the bonds.

The University's bond ratings have been affirmed at the Aa2 level by Moody's Investors Service with a positive outlook and AA by Standard & Poor's with a stable outlook in connection with the sale of the University's General Revenue Bonds in October 2005.

During 2004, additions to outstanding debt totaled $2.16 billion, including bond premiums of $69 million.

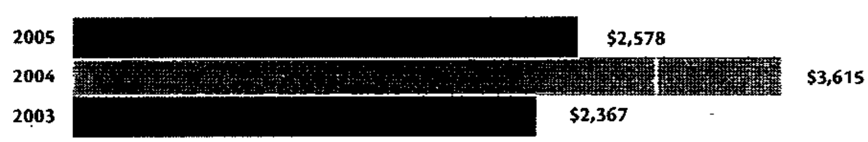
In July 2003, The Regents authorized the University to issue General Revenue Bonds collateralized by certain operating and nonoperating revenues of the University. Subsequently, the University issued General Revenue Bonds totaling $1.3 billion, $914 million in September 2003 and $386 million in November 2003. The proceeds from these bonds were used to finance new facilities, repay interim commercial paper financing and refinance existing debt, including $817 million of outstanding Multiple Purpose Projects Revenue Bonds, $180 million of outstanding Housing System Revenue Bonds, $34 million of outstanding Research Facilities Revenue Bonds and $164 million of outstanding certificates of participation.

In May 2004, the University issued Hospital Revenue Bonds totaling $256 million to finance a portion of the costs of constructing replacement hospital and certain other health care facilities associated with the UCLA Medical Center, refund $98 million of previously outstanding Hospital Revenue Bonds and extinguish $28 million in outstanding bank loans.

New capital lease obligations for equipment totaled $77 million in 2004. Other newly originating borrowings totaled $453 million, including the $252 million increase in interim loans from the state under prospective lease-purchase financing arrangements and a $111 million increase in loans from commercial banks to provide interim financing as a supplement to commercial paper or for capital projects supported by gifts to be received in the near future.

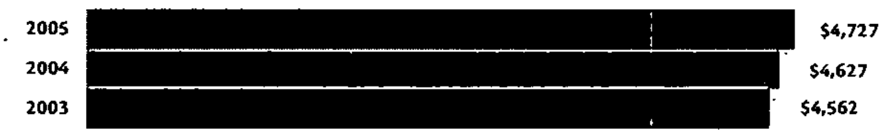
Reductions to outstanding debt in 2004 were $1.60 billion consisting of $1.36 billion for one-time principal payments for the refinancing or refunding of previously outstanding bonds; $204 million for principal payments associated with scheduled debt service on revenue bonds, certificates of participation and capital lease obligations; $18 million for payments on other borrowings that generally have been refinanced; and $17 million of deferred financing costs (net of premium amortization).

Securities lending collateral *(in millions of dollars)*



Under the securities lending program, the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of the securities lent. Securities lending collateral dropped by $1.04 billion in 2005 and grew by $1.25 billion in 2004. The amount of the securities lending collateral liability fluctuates directly with the investment of cash collateral as previously discussed.

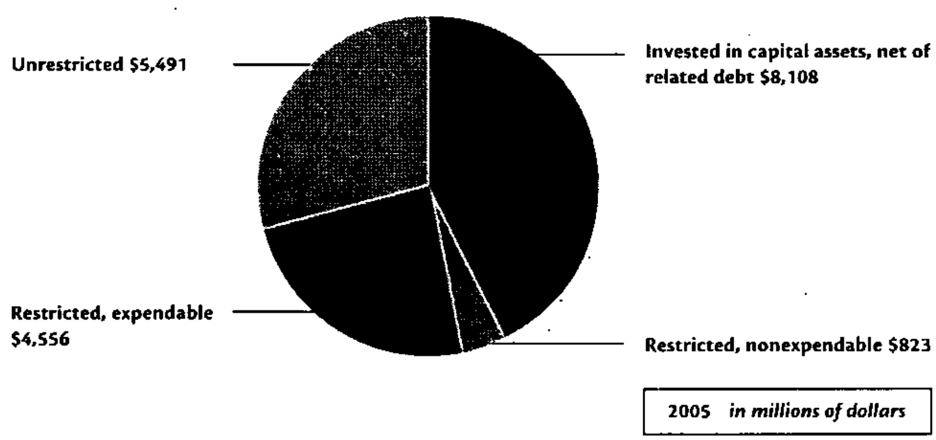
Other liabilities *(in millions of dollars)*



Other liabilities consist of accounts payable, accrued salaries and benefits, deferred revenue, funds held for others, the DOE laboratories' liabilities, federal refundable loans, self-insurance and obligations under life income agreements. Other liabilities grew by $100 million in 2005, primarily as a result of increases in vendor payables, particularly construction payables, of $35 million; accrued salaries of $17 million; deferred revenue of $10 million; funds held for others of $20 million; third-party payor liabilities at medical centers of $30 million; and vacation leave of $30 million, partially offset by a $56 million reduction in benefit liabilities.

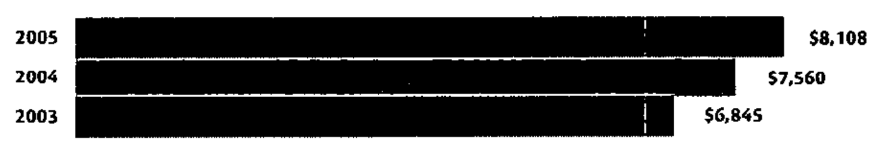
In 2004, other liabilities increased by $65 million as a result of a $59 million increase in routine, ongoing vendor payables.

The University's Net Assets



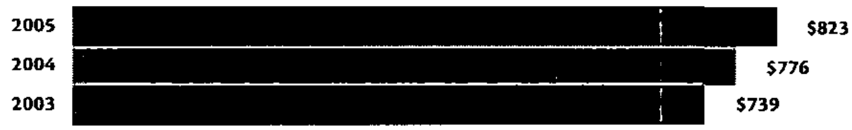
Net assets represent the residual interest in the University's assets after all liabilities are deducted. The University's net assets have grown to $18.98 billion in 2005, compared to $17.79 billion in 2004 and $16.45 billion in 2003. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted, nonexpendable; restricted, expendable; and unrestricted.

Invested in capital assets, net of related debt *(in millions of dollars)*



The portion of net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, grew to $8.11 billion in 2005, compared to $7.56 billion in 2004 and $6.85 billion in 2003. The increase in both years represents the University's continuing investment in its physical facilities in excess of the related financing and depreciation expense and accounts for a significant portion of the University's overall increase in its net assets for both 2005 and 2004.

Restricted, nonexpendable *(in millions of dollars)*



Restricted, nonexpendable net assets include the corpus of the University's permanent endowments and the estimated fair value of planned giving arrangements. Substantially all of the increase in both years is from new permanent endowment gifts received.

Restricted, expendable *(in millions of dollars)*

Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations or capital projects; trustee held investments; or other third party receipts. Net unrealized appreciation in the fair value of investments was the primary reason for the increase in value in both 2005 and 2004. However, restricted net assets available for capital assets dropped by $72 million in 2005 because spending for capital projects outpaced additions.

Unrestricted *(in millions of dollars)*

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are allocated for academic and research initiatives or programs, for capital purposes or for other purposes. Unrestricted net assets include endowments and funds functioning as endowments of $1.08 billion and $1.02 billion in 2005 and 2004, respectively.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. Currently, the University records retiree medical and dental costs as they are paid and does not recognize the liability in the financial statements. The University is currently evaluating the effect that Statement No. 45 will have on its financial statements, although it is expected that there will be a significant increase in the University's operating expenses and liabilities, as well as a significant decrease in unrestricted net assets.

The University's Results of Operations

The statement of revenues, expenses and changes in net assets is a presentation of the University's operating results. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

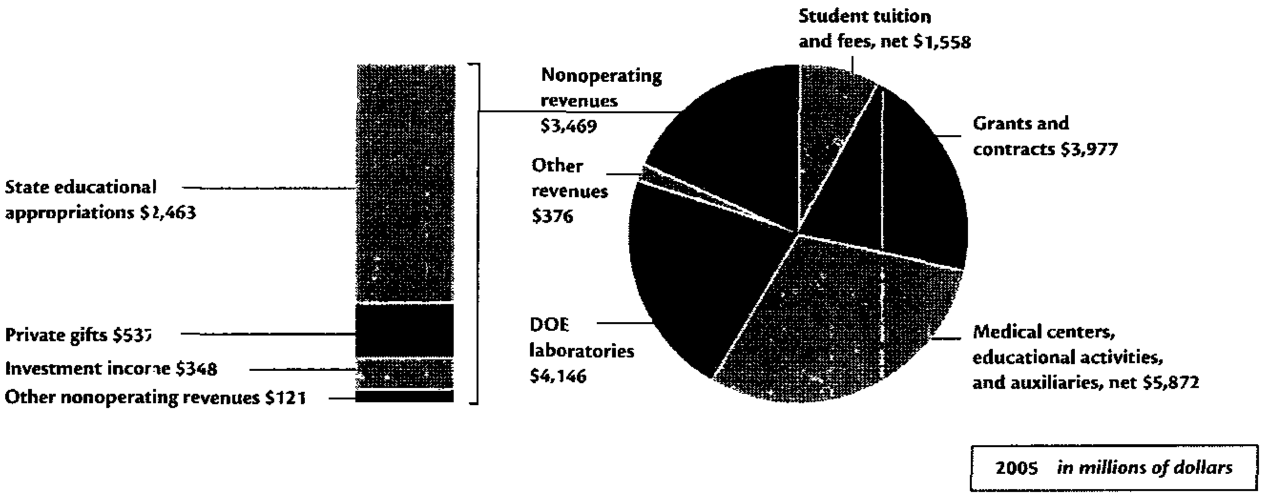
A summarized comparison of the operating results for 2005, 2004 and 2003, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

(in millions of dollars)

	2005			2004			2003		
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL
REVENUES									
Student tuition and fees, net	$ 1,558		$ 1,558	$ 1,378		$ 1,378	$ 1,097		$ 1,097
State educational appropriations		$ 2,463	2,463		$ 2,640	2,640		$ 2,932	2,932
Grants and contracts	3,977		3,977	3,826		3,826	3,531		3,531
Medical centers, educational activities, and auxiliary enterprises, net	5,872		5,872	5,454		5,454	5,097		5,097
Department of Energy laboratories	4,146		4,146	4,116		4,116	4,173		4,173
Private gifts		537	537		545	545		485	485
Investment income		348	348		316	316		348	348
Other revenues	376	121	497	347	116	463	325	93	418
Revenues supporting core activities	**15,929**	**3,469**	**19,398**	**15,121**	**3,617**	**18,738**	**14,223**	**3,858**	**18,081**
EXPENSES									
Salaries and benefits	8,924		8,924	8,628		8,628	8,233		8,233
Scholarships and fellowships	363		363	334		334	338		338
Utilities	311		311	279		279	247		247
Supplies and materials	1,707		1,707	1,529		1,529	1,458		1,458
Depreciation and amortization	955		955	900		900	838		838
Department of Energy laboratories	4,112		4,112	4,082		4,082	4,140		4,140
Interest expense		296	296		268	268		269	269
Other expenses	2,236	6	2,242	2,173	64	2,237	2,164	17	2,181
Expenses associated with core activities	**18,608**	**302**	**18,910**	**17,925**	**332**	**18,257**	**17,418**	**286**	**17,704**
Income (loss) from core activities	**$(2,679)**	**$3,167**	**488**	**$(2,804)**	**$3,285**	**481**	**$(3,195)**	**$3,572**	**377**
OTHER NONOPERATING ACTIVITIES									
Net appreciation in fair value of investments			278			291			211
Gain (loss) on disposal of capital assets, net			(37)			13			(29)
Income before other changes in net assets			**729**			**785**			**559**
OTHER CHANGES IN NET ASSETS									
State capital appropriations			189			217			223
Capital gifts and grants			218			320			390
Permanent endowments			48			24			25
Increase in net assets			**1,184**			**1,346**			**1,197**
NET ASSETS									
Beginning of year			17,794			16,448			15,251
End of year			**$18,978**			**$17,794**			**$16,448**

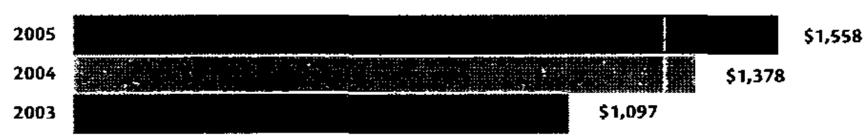
Revenues Supporting Core Activities

Categories of both operating and nonoperating revenue that supported the University's core activities in 2005 are as follows:



Revenues to support the University's core activities, including those classified as nonoperating revenues, were $19.40 billion, $18.74 billion and $18.08 billion in 2005, 2004 and 2003, respectively. These diversified sources of revenue increased in 2005 by $660 million and in 2004 by $657 million. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from medical centers, educational activities and auxiliary enterprises such as student housing, food service operations and parking.

Student tuition and fees, net *(in millions of dollars)*



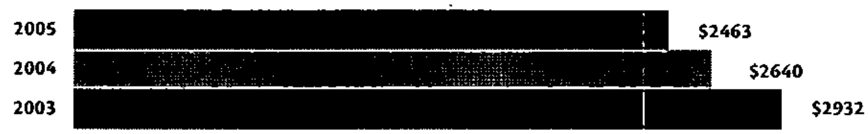
Student tuition and fees revenue, net of scholarship allowances, grew in 2005 by $180 million and in 2004 grew by $281 million. Scholarship allowances were $383 million in 2005, $338 million in 2004 and $235 million in 2003. The new fee revenue generally replaces state educational appropriations. Consistent with past practices, approximately one-third of the revenue generated from these fee increases was used for financial aid to mitigate the impact on needy students.

In 2005, enrollment was maintained at essentially the same level as in 2004. Fees for resident undergraduate and graduate students rose by 14 percent and 20 percent, respectively. Professional school fees rose by varying amounts and nonresident student tuition was increased by 20 percent.

In 2004, enrollment grew by 4.0 percent and fees for all resident undergraduate and graduate students increased by 30 percent. Professional school fees were also raised. Nonresident student tuition was increased by 10 percent. University Extension revenue continued to decline due to a reduction in enrollment.

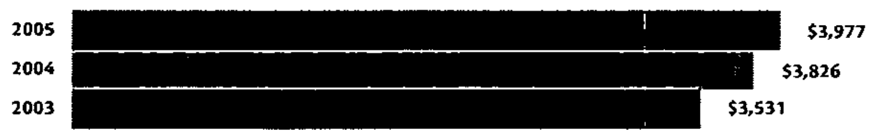
The compounded increase in student fees since 2003 was over 48 percent for resident undergraduate students and 56 percent for resident graduate students. In addition, the compounded increase in student tuition for nonresidents was 32 percent.

State educational appropriations *(in millions of dollars)*



Educational appropriations from the state of California declined in 2005 by $177 million. In 2004, educational appropriations declined by $292 million. This is the fifth year of budget reductions from the state that began in 2001 and included a round of mid-year reductions in both 2003 and 2004. A wide variety of areas and programs have been affected including administration, maintenance, libraries, equipment, outreach, K-12 teacher development, public service and student services. In order to maintain the quality of instruction, student fees were increased to offset the reduction in educational appropriations.

Grants and contracts *(in millions of dollars)*



Highlighting the continued competitive and effective nature of the University's research enterprise, revenue from federal, state, private and local government grants and contracts, including an overall facilities and administration cost recovery of $679 million, $639 million and $586 million in 2005, 2004 and 2003, respectively, increased in both 2005 and 2004 as follows:

(in millions of dollars)

	2005	2004	2003
Federal	$ 2,740	$ 2,623	$ 2,372
State	411	397	408
Private	681	653	620
Local	145	153	131
Grants and contracts revenue	**$3,977**	**$3,826**	**$ 3,531**

In 2005, federal grants and contracts revenue, including the federal facilities and administration cost recovery of $556 million and direct expenditures of $2.18 billion, grew by $117 million, or 4.5 percent. This revenue represents support from a variety of federal agencies as indicated below:

(in millions of dollars)

	2005	2004	2003
Department of Health and Human Services	$ 1,560	$ 1,457	$ 1,295
National Science Foundation	414	401	339
Department of Education	210	219	209
Department of Defense	172	176	170
National Aeronautics and Space Administration	119	91	69
Department of Energy (excluding national laboratories)	78	76	77
Other federal agencies	187	203	213
Federal grants and contracts revenue	**$2,740**	**$2,623**	**$2,372**

State grants and contracts revenue was up by $14 million, or 3.5 percent, including a $6 million increase in special appropriations for AIDS, breast cancer and tobacco research. Although levels of private grants and contracts revenue at the campuses can be volatile from year-to-year, overall it rose by $28 million (4.3 percent) due to several particularly large grants from private foundations. Local government grants and contracts revenue fell by $8 million (5.2 percent).

In 2004, overall revenue from federal, state, private and local government grants and contracts increased by $295 million, or 8.4 percent. Federal grants and contracts revenue grew by $251 million, or 10.6 percent; state grants and contracts revenue declined by $11 million, or 2.7 percent; private grants and contracts revenue grew by $33 million, or 5.3 percent, and local government grants and contracts revenue rose by $22 million, or 16.8 percent.

Medical centers, educational activities and auxiliary enterprises, net *(in millions of dollars)*

Revenue from medical centers, educational activities and auxiliary enterprises of $5.87 billion in 2005 increased by $418 million, or 7.7 percent, from 2004. In 2004, these revenues were $5.45 billion and increased $357 million, or 7.0 percent, from 2003. Revenues for each activity are as follows:

(in millions of dollars)

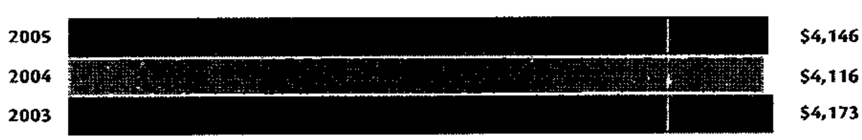
	2005	2004	2003
Medical centers	$ 3,962	$ 3,680	$ 3,413
Educational activities	1,063	996	934
Auxiliary enterprises, net	847	778	750
Medical centers, educational activities and auxiliary enterprises net revenues	**$5,872**	**$5,454**	**$5,097**

Medical center revenue in 2005 grew by $282 million to $3.96 billion and in 2004 grew by $267 million to $3.68 billion. The revenue growth in both years is primarily due to renegotiated contracts, rate adjustments and a modest increase in patient activity (2.2 and 1.4 percent increase in patient days and 0.7 and 0.8 percent increase in outpatient visits for 2005 and 2004, respectively). In addition, non-recurring Medi-Cal disproportionate share payments of $55 million were received in 2005.

Revenue from educational activities, primarily physicians' professional fees, grew by $67 million in 2005, or 6.7 percent, and by $62 million, or 6.6 percent, in 2004 and was generally associated with an expanded patient base and higher rates.

Revenue from auxiliary enterprises, net of scholarship allowances, grew by $69 million in 2005, or 8.9 percent, and by $28 million in 2004 , or 3.7 percent, as a result of the demand associated with enrollment growth, particularly for rooms in new residence halls that generated an additional $50 million of revenue this year, and fee increases to support new and remodeled facilities in both years. Scholarship allowances, generally for housing, were $85 million in 2005, $82 million in 2004 and $63 million in 2003.

DOE laboratories *(in millions of dollars)*



The three national laboratories, with a combined workforce of approximately 20,000 employees, operate on federally financed budgets. Revenue for each laboratory in 2005, 2004 and 2003 is as follows:

(in millions of dollars)

	2005	2004	2003
Los Alamos National Laboratory	$ 2,007	$ 2,057	$ 2,129
Lawrence Livermore National Laboratory	1,640	1,572	1,570
Lawrence Berkeley National Laboratory	499	487	474
DOE laboratories revenue	**$ 4,146**	**$4,116**	**$ 4,173**

Los Alamos laboratory revenue dropped by $50 million in 2005 as operations were curtailed for several months during a review of security procedures. Revenue declined in 2004 by $72 million as the laboratory required significantly less capital project funding than in 2003 and completed certain projects in collaboration with the Oak Ridge National Laboratory.

At the Livermore laboratory, additional revenue in both 2005 and 2004 is primarily related to the DOE's emphasis on certain Defense and Nuclear Technology initiatives and in 2004 on various projects sponsored by the Department of Homeland Security and Department of Defense. However, in 2004 there was also a reduction in capital spending requirements for the National Ignition Facility that offset nearly all of the revenue increase.

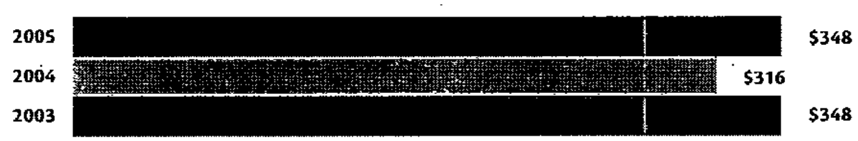
The Berkeley laboratory's growth over the past two years has been primarily in the areas of Materials Sciences, Computing Sciences and Genomics.

Compensation to the University under the contracts is based, in part, on performance and totaled $34 million in 2005 and $33 million for 2004 and 2003. A substantial portion of the compensation is returned to the laboratories for research activities.

Private gifts *(in millions of dollars)*

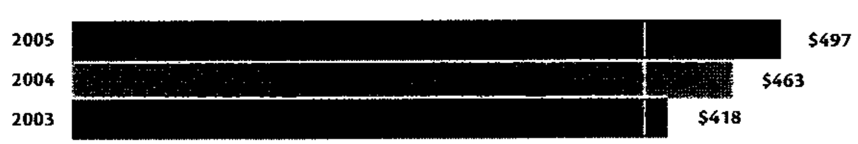
Private gifts, substantially all restricted as to use, dropped slightly to $537 million in 2005 from $545 million in 2004, yet were still substantially above the $485 million received in 2003. Gifts may be made directly to the University or through one of the University's campus foundations. The University continues to be aggressive in developing private revenue sources and gifts received from the campus foundations have generally increased over the past several years. In addition to private gifts for operating purposes, gifts are also received for capital purposes—recorded as capital gifts and grants—and for permanent endowments. The combined gifts for operating, capital and permanent endowment purposes totaled $803 million in 2005, $889 million in 2004 and $900 million in 2003.

Investment income *(in millions of dollars)*



Investment income, principally consisting of $213 million from the STIP and $130 million from endowments invested in the GEP, increased in 2005 by $32 million. Investment income from the STIP grew by $23 million in 2005 as short-term interest rates rose and fell by $27 million in 2004 as short-term interest rates declined. The 2005 investment returns were 3.6 percent for the University's STIP (3.4 percent for 2004). Endowment income also grew by $10 million during 2005 and fell by $4 million during 2004.

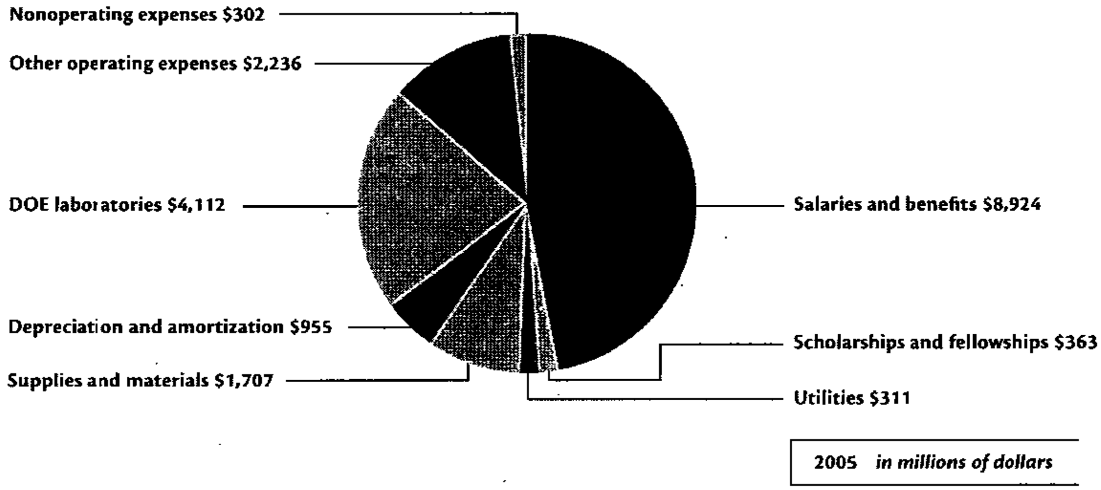
Other revenues *(in millions of dollars)*



Other revenues are from a variety of sources, including state financing appropriations. Collectively, they grew by $34 million in 2005 and by $45 million in 2004. State financing appropriations grew by $5 million and $23 million in 2005 and 2004, respectively. Similarly, patent income rose by $11 million and $14 million in 2005 and 2004, respectively.

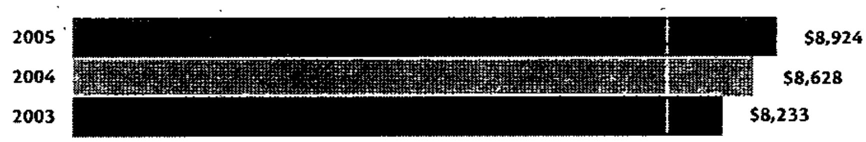
Expenses Associated with Core Activities

Categories of both operating and nonoperating expenses related to the University's core activities in 2005 are as follows:



Expenses associated with the University's core activities, including those classified as nonoperating expenses, were $18.91 billion, $18.26 billion and $17.70 billion in 2005, 2004 and 2003, respectively. Expenses increased in 2005 by $653 million and in 2004 by $553 million. Nearly half the University's expenses are related to salaries and benefits and another 22 percent, or $4.11 billion, involve spending at the national laboratories. Salaries and benefits attributable to the employees working in the national laboratories are included as laboratory expenses.

Salaries and benefits *(in millions of dollars)*



There are over 121,000 full time equivalent employees in the University, excluding approximately 20,000 that are associated with the three national laboratories. Salaries and benefits for 2005, 2004 and 2003 are as follows:

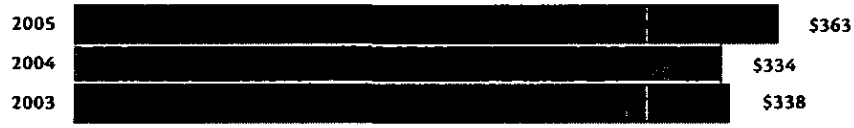
(in millions of dollars)

	2005	2004	2003
Salaries and wages	$ 7,441	$ 7,181	$ 6,891
Benefits	1,483	1,447	1,342
Salaries and benefits	**$8,924**	**$8,628**	**$8,233**

During 2005, salaries and benefits grew by $296 million from 2004, or 3.4 percent. Salaries and wages increased by $260 million, or 3.6 percent, generally related to new academic and administrative employees necessary to directly support the increase in academic and research programs and higher wages and changes to staffing ratios associated with patient care activities. Benefit costs increased by $36 million, or 2.5 percent. Increases in health insurance costs of $83 million, the employer portion of payroll taxes of $16 million and fee remissions for graduate student teaching assistants in tandem with the additional student tuition and fees this year of $22 million were partially offset by declining workers' compensation expenses of $85 million attributable to changes in the regulatory environment.

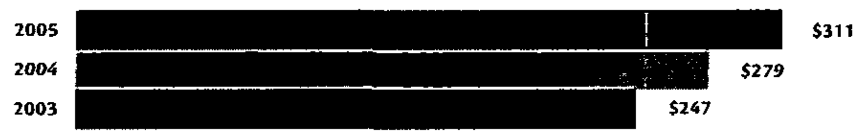
In 2004, salaries and benefits grew by $395 million, or 4.8 percent. Salaries and wages increased by $290 million, or 4.2 percent, generally for the same reasons as indicated for 2005. Benefit costs increased by $105 million, or 7.8 percent, as health insurance costs and fee remissions for graduate student teaching assistants grew by $64 million and $23 million, respectively.

Scholarships and Fellowships *(in millions of dollars)*



Scholarships and fellowships, representing payments of financial aid made directly to students, reported as an operating expense, were higher by $29 million in 2005, or 8.7 percent, and were $4 million lower in 2004 than in 2003, or 1.2 percent. In addition, scholarship allowances, representing financial aid and fee waivers by the University, are also forms of scholarship and fellowship costs that increased in 2005 by 11.2 percent to $475 million and increased in 2004 by 40.9 percent to $427 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, as the University continues its commitment to provide financial support for needy students, financial aid in all forms grew to $838 million in 2005 from $761 million in 2004 and $641 million in 2003, an increase of $198 million over the past two years, or 30.9 percent.

Utilities *(in millions of dollars)*

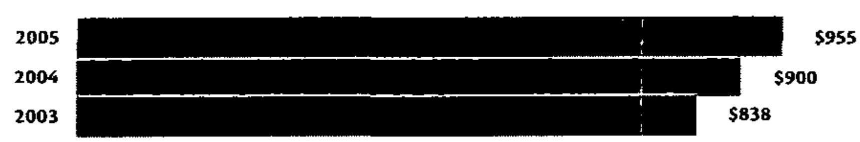


Utility costs rose by $32 million in both 2005 and 2004. Almost three-quarters of the University's utility costs are for electricity and natural gas. In 2005, electricity costs rose by $12 million, or 8.7 percent, and natural gas costs grew by $7 million, or 10.4 percent. Electricity costs in 2004 increased by $14 million, or 10.6 percent, and natural gas costs grew by $12 million, or 18.4 percent.

Supplies and materials *(in millions of dollars)*

During 2005, supplies and materials costs increased by $178 million, or 11.6 percent, and in 2004, by $71 million, or 4.9 percent. During the past two years, there has been inflationary pressure on the costs for medical supplies and laboratory instruments and higher costs for general supplies necessary to support expanded research activity and student enrollment. In addition, in 2005 the University's capitalization threshold was increased to $3,000 from $1,500 resulting in $41 million of incremental expense this year. The University expects to gradually increase its capitalization threshold to $5,000 over the next several years.

Depreciation and amortization *(in millions of dollars)*



Higher capital spending over the past several years necessary to upgrade facilities and support both recent and anticipated enrollment growth resulted in depreciation and amortization expense increasing to $955 million in 2005 from $900 million in 2004 and $838 million in 2003.

DOE laboratories *(in millions of dollars)*

DOE laboratories' expenses rose by $30 million in 2005 and declined by $58 million in 2004. Salaries and benefits are the predominant expenses at the laboratories, nearly $2.23 billion in 2005, and spending patterns for capital assets are generally responsible for most of the extreme year-to-year variations. In 2005, combined salaries and benefits increased by $43 million. However, lower spending for non-personnel costs at Los Alamos, attributable to curtailed operations for several months, offset other cost increases at Livermore and Berkeley. In 2004, combined salaries and benefits rose by $112 million, but were more than offset by a $103 million reduction in spending for capital assets and a decrease of $40 million for supplies and materials.

Interest expense *(in millions of dollars)*

Interest expense, reported as a nonoperating expense, increased by $28 million in 2005 and declined by $1 million in 2004. The University incurred additional interest expense for commercial paper and for new bonds issued during the past three years, although the weighted average interest rate of the overall portfolio has decreased over the past two years due to refinancing previously outstanding bonds at lower rates. Lower interest rates in 2004 for commercial paper used for interim financing, along with higher capitalized interest on projects under construction during 2004, resulted in no significant change to interest expense from 2003.

Other expenses *(in millions of dollars)*

Other expenses, including other nonoperating expenses, increased by $5 million in 2005 and $56 million in 2004. Nominal increases in a variety of expense categories this year were offset by a $51 million decline in bad debt expense at the medical centers due to an emphasis on collection efforts throughout the year.

In 2004, other expenses included a one-time $54 million transfer to the state in conjunction with an agreement surrounding the disposition of proceeds from the sale of excess land in Southern California recorded as an expense in the nonoperating category.

In accordance with the GASB's reporting standards, operating losses were $2.68 billion in 2005, $2.80 billion in 2004 and $3.20 billion in 2003. However, these operating losses were more than offset by $3.17 billion, $3.29 billion and $3.57 billion of net revenue and expenses in 2005, 2004 and 2003, respectively, that are required by the GASB to be classified as nonoperating, but clearly support operating activities of the University. Therefore, revenue to support core activities exceeded the associated expenses by $488 million in 2005, $481 million in 2004 and $377 million in 2003. This income is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, necessary for debt service or required for capital purposes.

Other Nonoperating Activities

The University's other nonoperating activities, generally non-cash transactions and, therefore, not available to support operating expenses, are the net appreciation or depreciation in the fair value of investments and the gain or loss on the disposal of capital assets. In general, the net appreciation or depreciation in the fair value of investments is the predominant reason for the variation in the University's increase or decrease in net assets from year-to-year.

Net appreciation in fair value of investments *(in millions of dollars)*

In 2005, the University recognized net appreciation in the fair value of investments of $278 million compared to $291 million of net appreciation during 2004 and $211 million in 2003. As short-term interest rates began to rise toward the end of 2004, and continued into 2005, the fair value of certain securities in the fixed-income portfolios generally declined resulting in net unrealized depreciation. However, as equity markets delivered reasonable gains over the past two years, the equity portfolios appreciated in value.

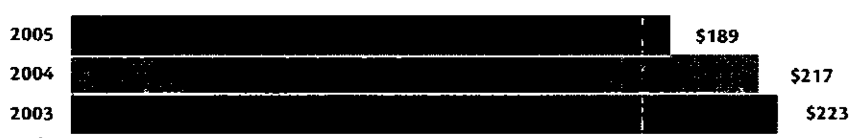
Gain (loss) on disposal of capital assets, net of proceeds *(in millions of dollars)*

Disposals and write-offs of capital assets resulted in a loss of $37 million in 2005 compared to a $13 million gain in 2004. Typically, routine disposals result in a slight loss, although during 2004 the University sold excess land in Southern California at a gain of $53 million.

Other Changes in Net Assets

Similar to other nonoperating activities discussed above, other changes in net assets are also not available to support the University's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital asset. Only income earned from gifts of permanent endowments is available in future years to support the specified program.

State capital appropriations *(in millions of dollars)*

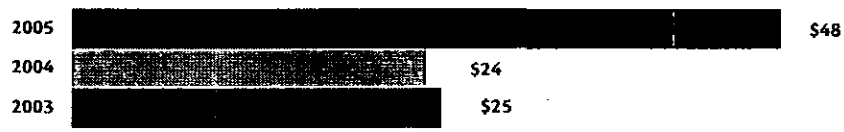


The University's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the state of California decreased by $28 million in 2005 and by $6 million in 2004. The 2004 and 2003 capital appropriations are from the 2002 bond measure approved by the California voters.

Capital gifts and grants *(in millions of dollars)*

Capital gifts and grants decreased by $102 million in 2005 and $70 million in 2004. This decrease was largely a result of a $61 million decline in the receipt of FEMA grants, primarily for the replacement hospital at UCLA, and a $12 million reduction in gifts of intangible assets, partially offset by significant gifts of software licenses of $24 million. In 2004, while FEMA grants were $88 million less than in 2003, the University recorded a $32 million non-recurring donation of land.

Permanent endowments *(in millions of dollars)*



Gifts of permanent endowments to the University doubled in 2005 to $48 million from $24 million and $25 million in 2004 and 2003, respectively, as the University continues to place significant emphasis on private giving.

The University's Cash Flows

The statement of cash flows presents the significant sources and uses of cash. The University's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts on a daily basis.

A summary comparison of cash flows for 2005, 2004 and 2003 is as follows:

(in millions of dollars)

	2005	2004	2003
Cash received from operations	$ 11,567	$ 10,714	$ 9,801
Cash payments for operations	(13,389)	(12,662)	(12,080)
Net cash used by operating activities	**(1,822)**	**(1,948)**	**(2,279)**
Net cash provided by noncapital financing activities	3,049	3,201	3,399
Net cash used by capital and related financing activities	(1,291)	(1,353)	(1,100)
Net cash provided (used) by investing activites	157	74	(55)
Net increase (decrease) in cash	**93**	**(26)**	**(35)**
Cash, beginning of year	71	97	132
Cash, end of year	**$ 164**	**$ 71**	**$ 97**

The University's cash in demand deposit accounts increased by $93 million in 2005 compared to declines of $26 million in 2004 and $35 million in 2003. Over $1.82 billion of cash was used for operating activities in 2005, offset by $3.05 billion of cash provided by noncapital financing activities. Similarly, in 2004, $1.95 billion of cash was used for operating activities, offset by $3.20 billion of cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating activities.

Cash of $1.29 billion and $1.35 billion in 2005 and 2004, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include new external financing, state and federal (FEMA) capital appropriations and gifts for capital purposes.

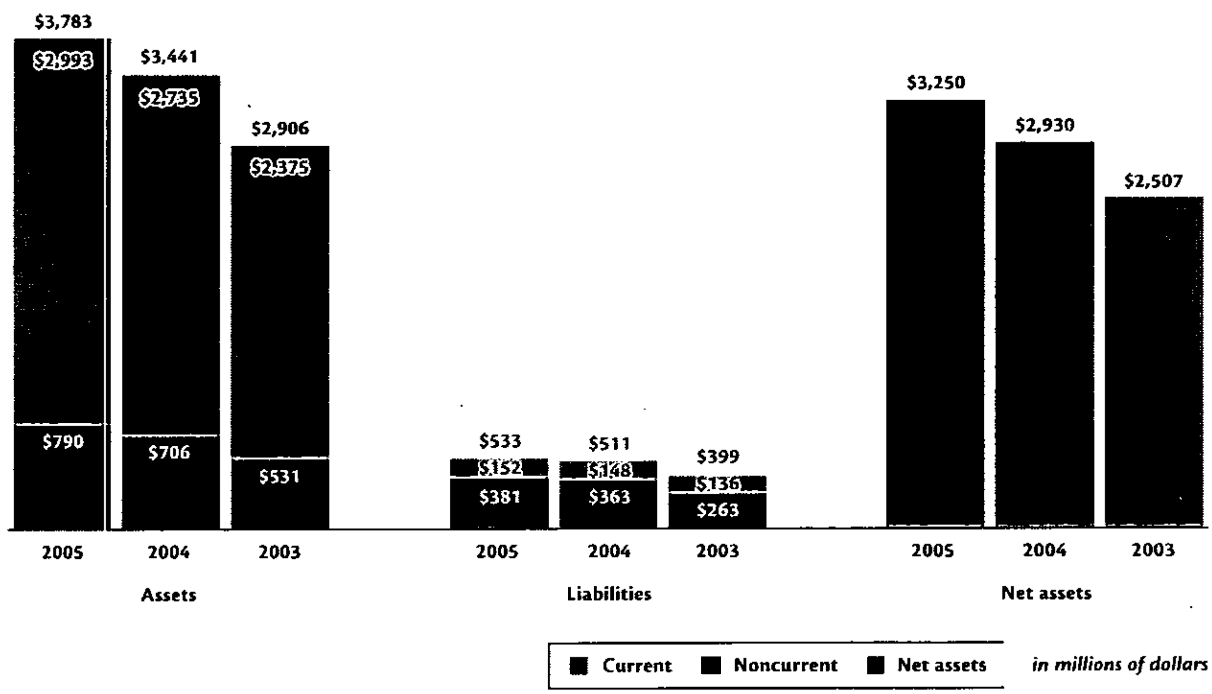
Cash provided by investing activities totaled $157 million in 2005 and $74 million in 2004. The differences are a result of the routine timing of investment transactions and greater investment income.

THE UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS

The Regents have approved the establishment of separate foundations at each individual campus to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern each of these ten foundations, they are affiliated with, and their assets are dedicated for, the benefit of the University of California.

The Campus Foundations' Financial Position

The campus foundations' statement of net assets presents their combined financial position at the end of the year. It displays all of the campus foundations' assets, liabilities and net assets. The difference between assets and liabilities are net assets, representing a measure of the current financial condition of the campus foundations.



The major components of the combined assets, liabilities and net assets of the campus foundations at 2005, 2004 and 2003 are as follows:

(in millions of dollars)

	2005	2004	2003
ASSETS			
Investments	$ 2,950	$ 2,597	$ 2,223
Investment of cash collateral	288	266	170
Pledges receivable, net	427	453	403
Other assets	118	125	110
Total assets	**3,783**	**3,441**	**2,906**
LIABILITIES			
Securities lending collateral	288	266	170
Obligations under life income agreements	162	154	142
Other liabilities	83	91	87
Total liabilities	**533**	**511**	**399**
NET ASSETS			
Restricted:			
Nonexpendable	1,360	1,226	1,066
Expendable	1,874	1,696	1,419
Unrestricted	16	8	22
Total net assets	**$3,250**	**$2,930**	**$2,507**

Assets. Investments in 2005 grew by $353 million. The significant changes were $122 million of new permanent endowments, $151 million of net appreciation in the fair value of investments, net collections on outstanding pledges as pledge payments exceeded new pledges and investment income. The net appreciation in the fair value of investments incorporates all changes in fair value, including both realized and unrealized gains and losses. The sale of investments during the year resulted in a net realized gain of $86 million. The net unrealized appreciation during the year in the fair value of investments held at the end of the year was $65 million.

Investments in 2004 grew by $374 million, generally resulting from $113 million in new permanent endowments, $221 million of net appreciation in the fair value of investments, investment income and a change in accounting principle to include as an investment the value of externally-held irrevocable trusts. The sale of investments during the year resulted in a net realized gain of $80 million. The net unrealized appreciation during the year in the fair value of investments held at the end of the year was $141 million.

The Board of Trustees for each campus foundation is responsible for its specific investment policy, although asset allocation guidelines are recommended to campus foundations by the Investment Committee of The Regents. The Boards of Trustees may determine that all or a portion of their investments will be managed by the University's Treasurer. The Treasurer managed $861 million and $714 million of the campus foundations' investments at the end of 2005 and 2004, respectively.

The campus foundations' statement of net assets includes an allocation of the University's securities lending assets and liabilities at the end of each year and income and rebates for the year, in accordance with their respective investments with the University. One campus foundation participates directly in its own securities lending program. The investment of cash collateral and related securities lending liability allocated by the University to the campus foundations totaled $231 million and $226 million at 2005 and 2004, respectively. The campus foundation with direct participation loaned securities for cash collateral of $57 million and $40 million at the end of 2005 and 2004, respectively.

Certain campuses and campus foundations have comprehensive fund-raising campaigns underway, raising both gifts and pledges. Pledges receivable, representing gifts to be received in the future, declined by $26 million in 2005 to $427 million, primarily due to a significant pledge payment in 2005 at the Davis campus foundation, after growing in 2004 by $50 million.

Liabilities. Total campus foundations' liabilities were $533 million in 2005 compared to $511 million in 2004. Substantially all of the increase results from the securities lending program discussed above.

Net assets. Net assets are reported in certain categories based upon the nature of the restrictions on their use.

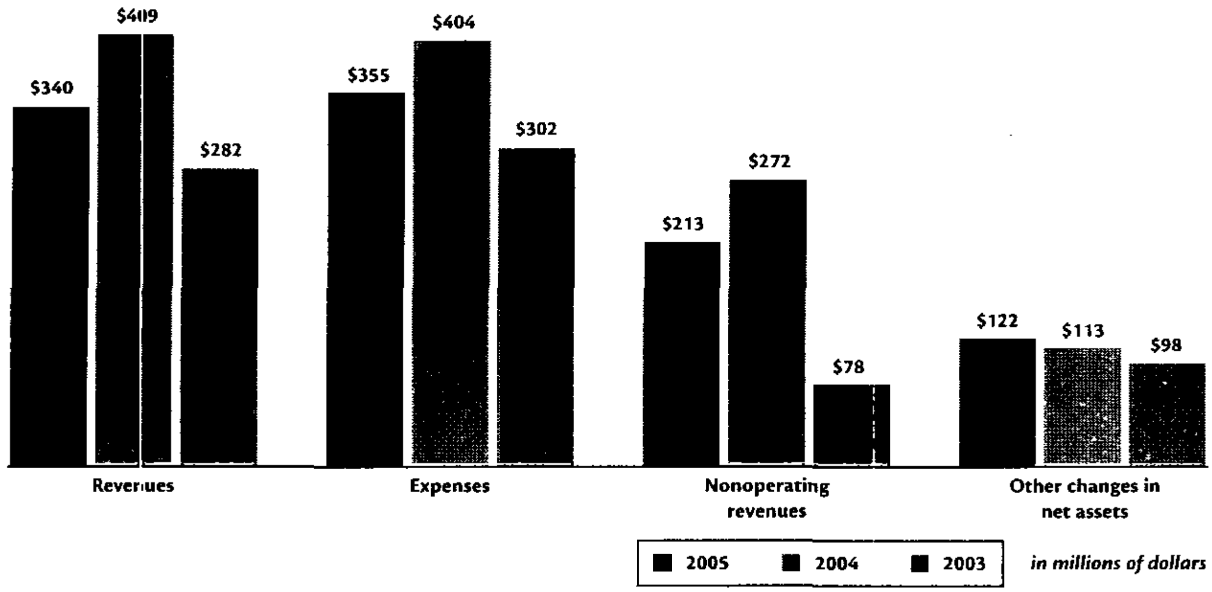
Restricted, nonexpendable net assets include the corpus of the campus foundations' permanent endowments and the estimated fair value of certain planned giving arrangements. The increase is primarily attributable to new permanent endowment gifts received, partially offset by an increase in the estimated liability to beneficiaries of the planned giving arrangements.

Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and investment gains, subject to each individual campus foundation's spending policy; support received from gifts; trustee held investments; or other third party receipts. New gifts and net appreciation in the fair value of investments were the primary reasons for the increase in value in 2005 and 2004.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes.

Effective at the beginning of 2004, the Berkeley campus foundation began recording the fair value of its estimated remainder interest in externally held irrevocable trusts that will not become a permanent endowment upon distribution. Previously, the campus foundation had recorded its remainder interest only upon receipt of the assets as a result of the termination of the trust. Adoption of this policy is reflected as a change in accounting principle in the campus foundations' statement of revenues, expenses and changes in net assets. The effect of this change in 2004 was to increase net assets by $33 million. This amount represents the campus foundation's remainder interest in the fair value of these trusts discounted to a present value.

The Campus Foundations' Results of Operations



The campus foundations' combined statement of revenues, expenses and changes in net assets is a presentation of their operating results for the year. It indicates whether their financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2005, 2004 and 2003 is as follows:

(in millions of dollars)

	2005	2004	2003
OPERATING REVENUES			
Private gifts	$ 332	$ 407	$ 280
Other revenues	8	2	2
Total operating revenues	**340**	**409**	**282**
OPERATING EXPENSES			
Grants to campuses	344	390	293
Other expenses	11	14	9
Total operating expenses	**355**	**404**	**302**
Operating income (loss)	**(15)**	**5**	**(20)**
NONOPERATING REVENUES (EXPENSES)			
Investment income	62	55	54
Net appreciation in fair value of investments	151	221	32
Other nonoperating expenses		(4)	(8)
Income before other changes in net assets	**198**	**277**	**58**
OTHER CHANGES IN NET ASSETS			
Permanent endowments	122	113	98
Increase in net assets	**320**	**390**	**156**
NET ASSETS			
Beginning of year, as reported	2,930	2,507	2,351
Cumulative effect of a change in accounting principle		33	
Beginning of year, as restated		2,540	
End of year	**$3,250**	**$2,930**	**$2,507**

Operating income (loss). Operating revenues generally consist of current-use gifts, including pledges and income from other fund-raising activities, although they do not include additions to permanent endowments and endowment income. In 2005, operating revenues declined by $69 million. Comparisons to the prior year are affected by significant gifts in 2004 at both the Berkeley and San Francisco campus foundations that boosted private gift revenue in that year by $127 million from 2003 levels.

Operating expenses generally consist of grants to University campuses, comprised of current-use gifts and endowment income and other expenses, including gift fees. Grants to campuses typically follow the pattern indicated by private gift revenue, however the campus' programmatic needs are also taken into consideration, subject to abiding by the designated purposes of gifts to the endowment and the amounts available for grants in any particular year.

Private gift revenue includes pledges, a non-cash operating revenue. Grants to the campuses can only be made when the cash is received and, in addition, also include endowment investment income, classified as nonoperating income. Therefore, operating losses can occur when grants distributed to the campuses in any particular year exceed private gift revenue.

Nonoperating revenues (expenses). Nonoperating revenues or expenses include net investment income, net appreciation or depreciation in the fair value of investments and adjustments to gift annuity and trust liabilities. Investment income of $62 million was up from $55 million in 2004 and $54 million in 2003. Due to the performance of the financial markets in 2005 and 2004, the campus foundations reported $151 million and $221 million, respectively, of net appreciation in the fair value of investments.

Other changes in net assets. Gifts of permanent endowments of $122 million in 2005 grew by $9 million from 2004 levels. In 2004, gifts of permanent endowments grew by $15 million from 2003.

The Campus Foundations' Cash Flows

The campus foundations' combined statement of cash flows presents the significant sources and uses of cash and cash equivalents. A summary comparison of cash flows for 2005, 2004 and 2003 is as follows:

(in millions of dollars)

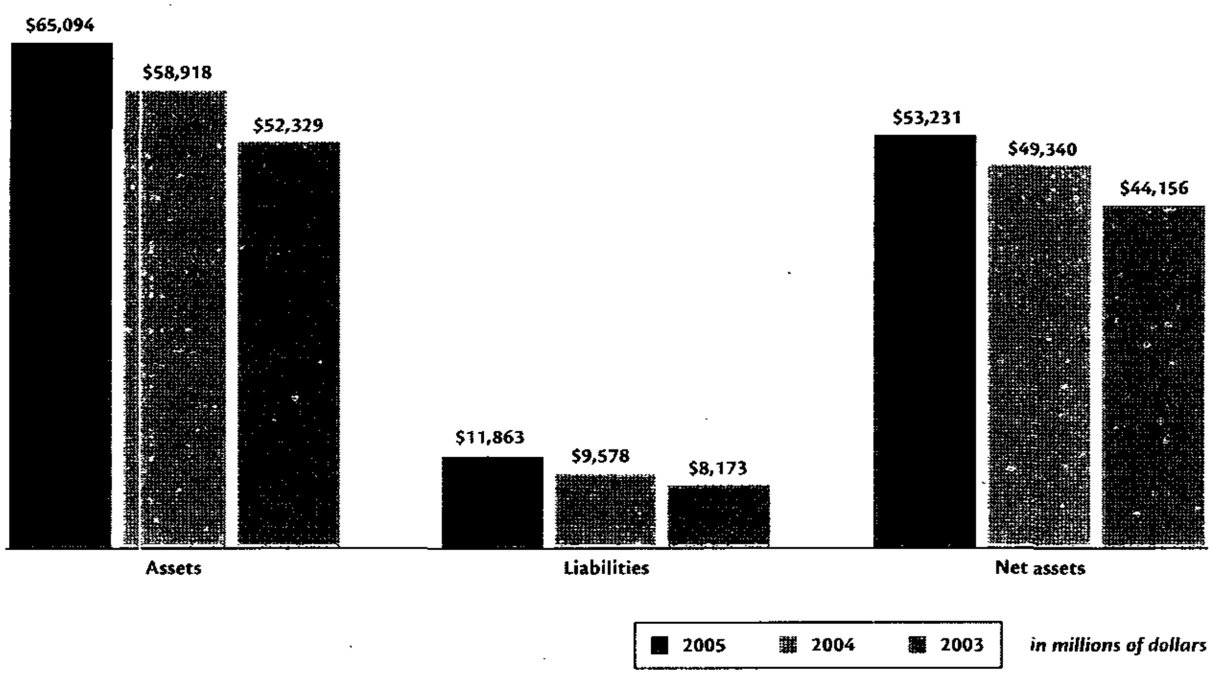
	2005	2004	2003
Cash received from private gifts	$ 338	$ 343	$ 268
Cash payments for grants	(370)	(408)	(292)
Other cash receipts (payments), net	4	(2)	1
Net cash used by operating activities	**(28)**	**(67)**	**(23)**
Net cash provided by noncapital financing activities	107	104	80
Net cash used by investing activites	(88)	(16)	(53)
Net increase (decrease) in cash	**(9)**	**21**	**4**
Cash and cash equivalents, beginning of year	89	68	64
Cash and cash equivalents, end of year	**$ 80**	**$ 89**	**$ 68**

Cash and cash equivalents dropped to $80 million in 2005 from $89 million in 2004, a decrease of $9 million. In 2004, cash increased by $21 million. Cash used by operating activities was $28 million in 2005 compared to $67 million in 2004 due to relatively high cash grants sent to campuses in the prior year, as opposed to being invested. As discussed above, cash payments for grants are an operating activity, but these payments also include investment income which is an investing activity. In addition, while the trend is for grants to campuses to coincide with contributions revenue, the timing may not always occur in the same year. Cash provided by noncapital financing activities primarily results from cash gifts to permanent endowments.

THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

The UCRS is a valuable component of the comprehensive benefits package offered to employees of the University. The UCRS consists of the University of California Retirement Plan (the UCRP), a defined benefit plan for members; the University of California Retirement Savings Plans that include three defined contribution plans (the DCP, the 403(b) and the 457(b) plans) to complement the defined benefit plan, with several investment portfolio options for participants' elective and non-elective contributions; and the Public Employees Retirement System Voluntary Early Retirement Incentive Program (PERS-VERIP) for certain University employees who elected early retirement.

The UCRS' Financial Position



The statement of plans' fiduciary net assets presents the financial position of the UCRS at the end of the fiscal year. It displays all of the retirement system's assets, liabilities and net assets. The difference between assets and liabilities are the net assets held in trust for pension benefits. These represent amounts available to provide pension benefits to members of the UCRP and participants in the defined contribution plans and the PERS-VERIP. At June 30, 2005, the UCRS plans' assets were over $65 billion, liabilities were nearly $12 billion and net assets held in trust for pension benefits exceeded $53 billion, an increase of $3.89 billion from 2004. Net assets increased in 2004 by $5.18 billion from 2003.

The major components of the assets, liabilities and net assets available for pension benefits for 2005, 2004 and 2003 are as follows:

(in millions of dollars)

	2005	2004	2003
ASSETS			
Investments	$ 51,372	$ 47,003	$ 42,325
Participants' interest in external mutual funds	2,359	2,083	1,589
Investment of cash collateral	10,894	9,298	8,019
Other assets	469	534	396
Total assets	**65,094**	**58,918**	**52,329**
LIABILITIES			
Securities lending collateral	10,891	9,299	8,018
Other liabilities	972	279	155
Total liabilities	**11,863**	**9,578**	**8,173**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Members' defined benefit plan benefits	41,936	39,263	35,398
Participants' defined contribution plan benefits	11,295	10,077	8,758
Total net assets held in trust for pension benefits	**$53,231**	**$49,340**	**$44,156**

Assets. UCRS investments, including participants' interest in external mutual funds, totaled $53.73 billion at the end of 2005 compared to $49.09 billion at the end of 2004, an increase of $4.64 billion, including security purchases yet to be settled of $845 million. The increase, net of future settlements of security purchases, was generally a result of $3.18 billion net appreciation in the fair value of investments, $924 million in contributions to the UCRS and $1.51 billion in net investment earnings, partially offset by benefit payments of $1.69 billion.

In 2004, UCRS investments, including participants' interest in external mutual funds, increased by $5.17 billion, including $175 million of security purchases settled after year-end. Similar to 2005, the net increase was primarily a result of $4.56 billion net appreciation in the fair value of investments, $810 million in contributions to the UCRS and $1.31 billion in net investment earnings, partially offset by benefit payments of $1.46 billion.

The net appreciation in the fair value of investments includes both realized and unrealized gains and losses. In 2005, the sale of investments resulted in a net realized gain of $926 million. Net unrealized appreciation of $2.25 billion during the year in the fair value of assets held in the UCRS investment portfolio was recorded. During 2004, the sale of investments resulted in a net realized gain of $4.37 billion. In addition, there was $192 million of net unrealized appreciation in the UCRS investment portfolio during the year.

As is the case with the University's GEP and discussed previously, the UCRS continues its transition from internal management to multiple external managers and from a single, actively managed large capitalization strategy to a range of equity strategies. The transition will continue into 2006.

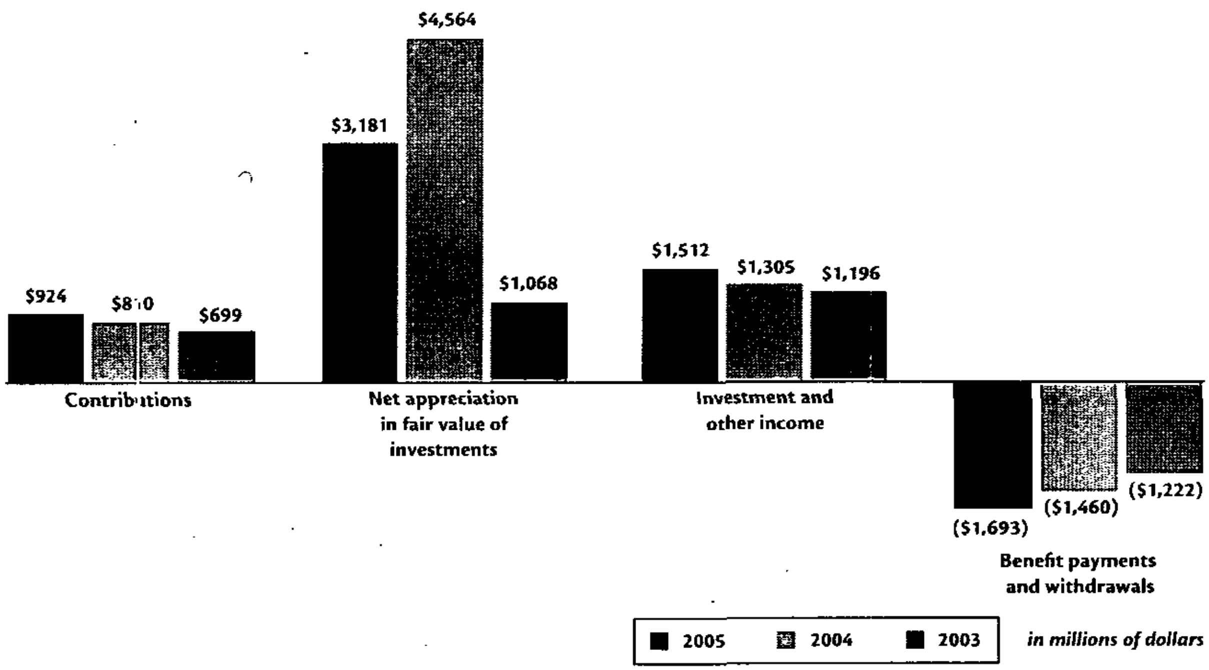
During 2005, participants' interest in external mutual funds, representing defined contribution plan contributions to certain external mutual funds on a custodial plan basis, grew by $276 million to $2.36 billion primarily through a combination of $201 million of participant contributions, $160 million of investment earnings and appreciation in the fair value of investments and $25 million transferred from University managed investments, partially offset by $110 million of participant withdrawals. In 2004, participants' interest in external mutual funds grew by $494 million to $2.08 billion generally through $225 million of participant contributions, $295 million of investment earnings and appreciation in the fair value of investments and $63 million transferred from University managed investments, partially offset by $89 million of participant withdrawals.

Along with the University, the UCRS participates in a securities lending program as a means to augment income. The investment of cash collateral and the associated liability for collateral held by the UCRS for securities on loan at the end of the year increased in 2005 and 2004 by 17.2 percent and 15.9 percent, respectively. The securities lending investment income, net of fees and rebates, dropped to $17 million in 2005 from $19 million in 2004. The University earns less on its lending of equity securities than it does on fixed income securities. The proportion of total securities lent that were equity securities grew in 2005.

Liabilities. Total UCRS liabilities were $11.86 billion in 2005 compared to $9.58 billion in 2004. Over $1.59 billion of the increase results from the securities lending program discussed above, with the remainder a result of liabilities for security purchases to be settled after year-end.

Net assets. Over $41.93 billion of the net assets are dedicated to the UCRP members' defined benefit plan benefits and over $11.29 billion are associated with participants' tax deferred, defined contribution plan benefits. As of June 30, 2005, the date of the most recent actuarial report, the UCRP's funded ratio was 110.3 percent compared to 117.9 percent as of June 30, 2004. This indicates that for every dollar of benefits due to UCRP members under the University's deferred benefit plan, assets of over $1.10 are available to cover benefit obligations.

The UCRS' Results of Operations



The statement of changes in plans' fiduciary net assets is a presentation of the UCRS' operating results. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2005, 2004 and 2003 is as follows:

(in millions of dollars)

	2005	2004	2003
ADDITIONS (REDUCTIONS)			
Contributions	$ 924	$ 810	$ 699
Net appreciation in fair value of investments	3,181	4,564	1,068
Investment and other income	1,512	1,305	1,196
Total additions	**5,617**	**6,679**	**2,963**
DEDUCTIONS			
Benefit payments and participant withdrawals	1,693	1,460	1,222
Plan expenses	33	35	37
Total deductions	**1,726**	**1,495**	**1,259**
Increase in net assets held in trust for pension benefits	**$3,891**	**$5,184**	**$1,704**

Contributions. Contributions in 2005 increased by $114 million and in 2004 by $111 million. Substantially all were made into the defined contribution plans. Due to the UCRP's funded position, neither the University nor the majority of the members has been required to make contributions since 1990, although $3 million and $8 million have been contributed for 2005 and 2004, respectively, for service credit buybacks and other transfers. However, participants are required to make contributions to the DCP and may make voluntary and rollover contributions to the DCP and the 403(b) plan and, beginning in 2005, may contribute to the newly-established 457(b) plan.

Participants made mandatory and voluntary contributions of $222 million and $226 million into the DCP in 2005 and 2004, respectively. The University made employer contributions of $4 million into the DCP in both years. In addition, participants voluntarily contributed $593 million and $572 million into the 403(b) plan in 2005 and 2004, respectively. They also contributed $102 million in 2005 to the 457(b) plan.

Net appreciation in fair value of investments. The UCRS recognized net appreciation in the fair value of investments of $3.18 billion during 2005 compared to $4.56 billion during 2004.

In 2005 and 2004, both the fixed income and equity portfolios generated net appreciation in the fair value of investments. The overall investment gain for the UCRS was 9.8 percent and 13.7 percent in 2005 and 2004, respectively.

Investment and other income. Investment and other income in 2005 of $1.51 billion increased by $207 million, or 15.9 percent. Similarly, investment and other income in 2004 of $1.31 billion increased by $109 million, or 9.1 percent. Dividends increased and short-term interest rates rose in both years.

Benefit payments and withdrawals. Benefit payments and participant withdrawals were $233 million higher in 2005 than in 2004 and $238 million higher in 2004 than in 2003. Payments from the UCRP to retirees increased by $120 million and $107 million in 2005 and 2004, respectively, due to a growing number of retirees receiving payments and cost-of-living adjustments and member withdrawals. In addition, elections of lump sum cash-outs of the UCRP and participant withdrawals from the Retirement Savings Plans grew by $108 million and $127 million in 2005 and 2004, respectively.

LOOKING FORWARD

California has always been a leader in generating new ideas and providing solutions for the challenges facing our nation and the world. The University of California has always been at the center of California's capacity to innovate. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in state, federal and private funding and promotes discovery of new knowledge that fuels economic growth.

Major financial strengths of the University include a diverse source of revenues, including those from the State of California, student fees, federally sponsored grants and contracts, medical centers, private support and self-supporting enterprises. The different sources of revenue are especially important at this time as the state funded portion of the operating budget has experienced considerable pressure leading to non-instructional program cuts, student fee increases and enrollment caps.

Currently, the state is continuing its work to resolve a major fiscal crisis in which expenditures have continued to exceed revenues. Last year, the University and the Governor agreed on a Compact to provide guidance and financial commitments to a long-term resource plan for the University. The Compact addresses fundamental financial support, enrollment, student fees and other key program elements for 2006 through 2011. It provides a financial foundation for the University and the ability to plan for student fee levels over the next several years. In exchange for this long-term stability, the University commits to focus its resources to address long-term accountability goals for enrollment, student fees, financial aid and program quality.

As in 2005, the effect of state budget reductions on student instructional programs in 2006 will be minimized, due in part to student fee increases Student tuition and fees have been raised since 2003 and will continue to be increased in 2006 and 2007. For 2006, resident undergraduate fees will increase by 8 percent, graduate student fees by 10 percent and most professional school student fees will also increase. In addition to the resident student fees, nonresident undergraduate and graduate students pay tuition that will increase by 5 percent. For 2007, the University has agreed with the Governor to limit undergraduate student fee increases to 8 percent and graduate student fee increases to 10 percent. Consistent with past practice, a portion of the fee increases will be used for financial aid.

The University remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the University's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration and the Department of Energy. In recent years, federal research revenue has increased substantially on an annual basis. The longer-term outlook is more uncertain and large increases in federal funding for research is less likely. The federal budget outlook has deteriorated due to the current budget deficit and discussions regarding the reduction of deficits over the next few years. This may lead to future congressional efforts to limit domestic discretionary spending increases in areas such as research and would have important ramifications for the University's research budget.

The University's medical centers face financial challenges in a price-sensitive, managed care environment, along with the added costs and responsibilities related to their function as academic institutions. The demand for health care services and the cost of providing them are increasing significantly while the revenues on a per patient basis to support these services are increasing at a slower rate. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, the University's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal, health payors do not recognize the added cost of teaching in their payment to academic medical centers. Medicare, Medicaid, medical education and disproportionate share funding are expected to be reduced in the future. Also, as a result of state legislation, the medical centers face capital requirements to ensure that facilities can maintain uninterrupted operations following a major earthquake.

The continuing financial success of the medical centers is dependent on dedicated and sustained financial support for medical education and care for the poor. The medical centers remain competitive in their respective markets by reducing costs through restructuring and improved efficiencies and by expanding their presence in the market through stronger links with other providers, especially community hospitals and physicians in larger networks. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

The University's private support is a testament to its distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which its alumni, corporations, foundations and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University's programs and the importance of its mission. At the same time, private support in 2006 will likely reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

Additional, affordable and accessible student housing will be required in order to satisfy the demand. Most campus residence halls continue to be occupied at design capacity. The University is responding to the demand by building student housing in the traditional manner, with housing fees set to generate sufficient revenue to cover direct and indirect operating costs and debt service, and by seeking development opportunities for privately owned housing on University campuses.

The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. The support for the University's capital program will be provided from a combination of sources, including the state of California, external financing, gifts and other sources.

In March 2004, a new general obligation bond package for education was approved by the California voters. As a result, the University will receive $690 million for its capital program for the two-year period 2005 and 2006. In addition, the state of California also authorized $306 million in lease revenue bonds for the classroom design and construction at the Merced campus that is currently underway. Also, legislation was approved to authorize $219 million in lease revenue bonds for the four California Institutes for Science and Innovation to provide the balance of funding needed for design and construction of the Institutes.

Another general obligation bond measure is planned for submittal to the California voters on the 2006 ballot, supporting capital appropriations for the following two or four years. The Compact with the Governor includes support for future general obligation bond measures to provide capital funding of approximately $345 million per year, in addition to the use of lease revenue bonds as appropriate. This level of support will not meet all of the University's capital needs and institutional resources will continue to be necessary to address many critical projects.

There are also plans for additional capital projects that are traditionally not considered to be state supportable. This is a continuing process that is amended, as required, to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

UC Merced, the tenth University campus, enrolled 875 students in fall 2005 with the completion of three academic buildings and the first phase of the campus infrastructure.

The University has managed the three national laboratories on behalf of the DOE since their formation, without financial gain, as a public service to the nation. The current contract with the DOE to operate and manage the Ernest Orlando Lawrence Berkeley National Laboratory was recently awarded in 2005, after a competition, and extends through May 2010. The DOE has announced its intention to conduct a future competition to operate and manage the Lawrence Livermore National Laboratory, and has extended the expiration date of the current contract to September 2007. The Regents will consider whether the University will participate in this competition at a later date.

The current University contract to manage the Los Alamos National Laboratory for the National Nuclear Security Administration of the United States Department of Energy is scheduled to expire on May 31, 2006. The federal government is currently conducting a competition for a successor contract to the University's contract. The United States Department of Energy anticipates that a decision will be made by December 2005 and that the new contract will become effective June 1, 2006.

The Regents voted at their May 2005 meeting to participate in the competition as part of a joint venture in the form of a limited liability company. If the University's team is awarded the successor contract, the separate corporate entity is expected to be reported as a joint venture using the equity method in the University's financial statements. Regardless of whether the University's team is awarded the successor contract, the gross revenues and expenses associated with the successor contract are not expected to be reported in the University's statement of revenues, expense and changes in net assets, except for the University's paid share of contract management fee. In addition, UCRP assets and liabilities attributable to certain transferring employees who do not elect to become inactive or retire under the UCRP are expected to be transferred to a successor pension plan at a future date.

Gross revenues and expenses associated with the Los Alamos National Laboratory contract recorded by the University for the year ended June 30, 2005 were $2.01 billion and $1.99 billion, respectively. The difference, $17 million in 2005, represents the University's contract management fee and reimbursed costs incurred by the University, but not at the Laboratory. The amount of UCRP assets and liabilities expected to be transferred to a successor pension plan is unknown. It is dependent on future elections to be made by the 5,950 vested, active members currently working at the Laboratory.

The UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. Since 1990, the University's contribution rate to the UCRP has been zero. In addition, since 1990, most of the required employee member contributions to the UCRP are being redirected to the separate defined contribution plan maintained by the University. Actuarial reviews for the UCRP have determined that, given its financial position and its ability to meet its benefit obligations, employer and employee member contributions are not currently needed and will not be needed in 2006. However, it is not reasonable to expect the plan to maintain its high level of surplus and The Regents may require contributions at a future date. The zero rate for UCRP contributions and the redirection of employee member UCRP contributions will be reviewed annually by The Regents with the consulting actuaries and continued only until such time as a resumption of employer and employee member contributions to the UCRP are again required in order to maintain actuarially sound funding levels.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the University, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events, or developments that the University expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The University does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

REPORT OF INDEPENDENT AUDITORS

To The Regents of the University of California:

In our opinion, based upon our audits and the reports of other auditors, the financial statements listed in the accompanying table of contents on page 3, which collectively comprise the financial statements of the University of California (the "University"), a component unit of the state of California, present fairly, in all material respects, the respective financial position and plans' fiduciary net assets of the University, its aggregate discretely presented component units and the University of California Retirement System (the "Plans"), respectively, at June 30, 2005 and 2004, and the respective changes in financial position and cash flows of the University and its component units, and the changes in the Plans' fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the UC San Diego, UC Davis, UC Riverside and UC Irvine foundations, which represent 21 percent, 23 percent, and 31 percent of the assets, net assets, and operating revenues of the University of California campus foundations as of and for the year ended June 30, 2005; we also did not audit the financial statements of the UC San Diego, UC Davis, UC Riverside and UC Irvine foundations, which represent 21 percent, 23 percent and 21 percent of the assets, net assets, and operating revenues of the University of California campus foundations as of and for the year ended June 30, 2004. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of California campus foundations component units, is based upon the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 15 to the financial statements, during the year ended June 30, 2005 the Berkeley campus foundation began recording the fair value of its estimated remainder interest in certain externally held irrevocable trusts.

PricewaterhouseCoopers LLP

San Francisco, California
October 17, 2005

STATEMENTS OF NET ASSETS

AT JUNE 30, 2005 AND 2004 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2005	2004	2005	2004
ASSETS				
Cash and cash equivalents	$ 164,457	$ 71,335	$ 79,669	$ 88,691
Short-term investments	3,889,940	3,097,348	341,603	260,647
Investment of cash collateral	1,846,094	3,004,420	222,369	228,198
Investments held by trustees	69,044	58,377		
Accounts receivable, net	1,745,854	1,778,148	9,512	5,828
Pledges receivable, net	34,370	34,687	127,343	113,242
Current portion of notes and mortgages receivable, net	35,672	31,768	844	541
Inventories	123,829	123,577		
Department of Energy receivable	391,000	386,073		
Other current assets	89,445	90,542	9,053	8,925
Current assets	**8,389,705**	**8,676,275**	**790,393**	**706,072**
Investments	8,184,960	8,460,020	2,608,487	2,336,603
Investment of cash collateral	732,092	609,849	65,532	38,148
Investments held by trustees	879,338	517,018		
Pledges receivable, net	68,793	72,209	299,307	339,301
Notes and mortgages receivable, net	250,320	263,974	69	1,300
Capital assets, net	15,530,305	14,167,202		
Department of Energy receivable	49,390	47,675		
Other noncurrent assets	142,607	134,912	19,293	19,927
Noncurrent assets	**25,837,805**	**24,272,859**	**2,992,688**	**2,735,279**
Total assets	**34,227,510**	**32,949,134**	**3,783,081**	**3,441,351**
LIABILITIES				
Accounts payable	1,098,067	1,062,869	9,443	15,474
Accrued salaries and benefits	636,086	675,369		
Deferred revenue	611,451	601,070	1,472	1,456
Collateral held for securities lending	2,577,544	3,614,761	287,901	266,346
Commercial paper	550,000	550,000		
Current portion of long-term debt	450,013	587,354		
Funds held for others	236,258	216,555	61,433	59,320
Department of Energy laboratories' liabilities	389,097	386,073		
Other current liabilities	759,174	722,475	20,914	20,611
Current liabilities	**7,307,690**	**8,416,526**	**381,163**	**363,207**
Federal refundable loans	189,574	189,616		
Self-insurance	403,315	408,603		
Obligations under life income agreements	20,124	20,119	141,752	134,687
Long-term debt	6,945,272	5,775,635		
Department of Energy laboratories' liabilities	49,390	47,675		
Other noncurrent liabilities	334,528	296,566	10,224	13,105
Noncurrent liabilities	**7,942,203**	**6,738,214**	**151,976**	**147,792**
Total liabilities	**15,249,893**	**15,154,740**	**533,139**	**510,999**
NET ASSETS				
Invested in capital assets, net of related debt	8,108,355	7,559,999		
Restricted:				
Nonexpendable:				
Endowments	794,173	747,370	1,248,942	1,129,101
Annuity and life income funds	29,324	28,391	111,296	97,265
Expendable:				
Endowments	1,381,472	1,262,601	522,933	422,330
Annuity and life income funds	8,092	8,061	88,643	67,991
Funds functioning as endowments	1,777,878	1,650,488	596,407	550,423
Endowment income	413,743	398,128		
Gifts	679,497	624,042	665,378	654,763
Loans	109,766	108,960		
Capital projects	96,650	168,448		
Other, including debt service and appropriations	87,672	104,886		
Unrestricted	5,490,995	5,133,020	16,343	8,479
Total net assets	**$18,977,617**	**$17,794,394**	**$3,249,942**	**$2,930,352**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2005 AND 2004 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2005	2004	2005	2004
OPERATING REVENUES				
Student tuition and fees, net	$ 1,557,828	$ 1,377,923		
Grants and contracts:				
Federal	2,739,414	2,623,371		
State	411,214	397,071		
Private	680,817	653,590		
Local	145,104	152,609		
Medical centers	3,962,862	3,679,835		
Educational activities	1,062,723	996,374		
Auxiliary enterprises, net	846,608	778,310		
Department of Energy laboratories	4,146,261	4,115,635		
Campus foundation private gifts			$ 332,474	$ 407,661
Other operating revenues, net	376,296	346,744	7,433	1,762
Total operating revenues	**15,929,127**	**15,121,462**	**339,907**	**409,423**
OPERATING EXPENSES				
Salaries and wages	7,440,520	7,180,653		
Benefits	1,483,478	1,447,826		
Scholarships and fellowships	363,161	334,544		
Utilities	310,620	279,195		
Supplies and materials	1,706,728	1,529,352		
Depreciation and amortization	954,878	899,811		
Department of Energy laboratories	4,112,077	4,082,089		
Campus foundation grants			343,388	390,254
Other operating expenses	2,237,446	2,172,349	11,335	14,150
Total operating expenses	**18,608,908**	**17,925,819**	**354,723**	**404,404**
Operating income (loss)	**(2,679,781)**	**(2,804,357)**	**(14,816)**	**5,019**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	2,463,075	2,640,119		
State financing appropriations	120,667	115,846		
Private gifts	536,995	544,853		
Investment income:				
Short Term Investment Pool and other, net	213,054	190,210		
Endowment, net	129,941	120,272		
Securities lending, net	4,577	5,675	506	526
Campus foundations			60,696	54,590
Net appreciation in fair value of investments	278,144	291,119	150,769	220,874
Interest expense	(295,312)	(268,038)	(127)	(150)
Gain (loss) on disposal of capital assets	(36,715)	13,331		
Other nonoperating revenues (expenses)	(5,930)	(63,357)	467	(4,051)
Net nonoperating revenues	**3,408,496**	**3,590,030**	**212,311**	**271,789**
Income before other changes in net assets	**728,715**	**785,673**	**197,495**	**276,808**
OTHER CHANGES IN NET ASSETS				
State capital appropriations	189,295	216,914		
Capital gifts and grants	217,218	319,852		
Permanent endowments	47,995	24,062	122,095	113,017
Increase in net assets	**1,183,223**	**1,346,501**	**319,590**	**389,825**
NET ASSETS				
Beginning of year, as reported	17,794,394	16,447,893	2,930,352	2,507,231
Cumulative effect of a change in accounting principle				33,296
Beginning of year, as restated				2,540,527
End of year	**$18,977,617**	**$17,794,394**	**$3,249,942**	**$2,930,352**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2005 AND 2004 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2005	2004	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees, net	$ 1,560,856	$ 1,364,520		
Grants and contracts	3,966,616	3,893,412		
Medical centers	3,953,403	3,635,535		
Educational activities	1,070,890	980,052		
Auxiliary enterprises, net	854,447	780,573		
Collection of loans from students and employees	72,701	60,353		
Campus foundation private gifts			$ 337,616	$ 343,249
Payments to employees	(7,391,480)	(7,153,410)		
Payments to suppliers and utilities	(4,030,513)	(3,681,257)		
Payments for benefits	(1,543,699)	(1,396,051)		
Payments for scholarships and fellowships	(363,088)	(334,826)		
Loans issued to students and employees	(60,794)	(56,726)		
Payments to campuses and beneficiaries			(369,796)	(408,120)
Other receipts (payments)	88,431	(40,365)	3,745	(1,860)
Net cash used by operating activities	**(1,822,230)**	**(1,948,190)**	**(28,435)**	**(66,731)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	2,468,066	2,645,620		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	46,405	20,625	107,354	103,960
Other private gifts	503,121	537,499		
Student direct lending receipts	453,640	434,746		
Student direct lending payments	(453,640)	(434,746)		
Other receipts (payments)	31,549	(2,103)		(159)
Net cash provided by noncapital financing activities	**3,049,141**	**3,201,641**	**107,354**	**103,801**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	271,904	431,627		
Payments of principal	(271,904)	(431,627)		
Interest paid	(9,328)	(4,649)		
State capital appropriations	159,884	209,666		
State financing appropriations	4,483	3,477		
Capital gifts and grants	194,797	199,636		
Proceeds from debt issuance	1,184,268	2,253,217		
Proceeds from the sale of capital assets	13,023	65,690		
Proceeds from insurance recoveries	4,040	3,033		
Purchase of capital assets	(2,094,088)	(2,341,331)		
Refinancing or prepayment of outstanding debt	(337,286)	(1,356,666)		
Scheduled principal paid on debt and capital leases	(169,058)	(168,546)		
Interest paid on debt and capital leases	(241,799)	(216,839)		
Net cash used by capital and related financing activities	**(1,291,064)**	**(1,353,312)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments:				
Short Term Investment Pool	59,541,654	49,968,113		
Other investments	4,012,865	511,989	496,911	767,057
Purchase of investments:				
Short Term Investment Pool	(59,675,274)	(50,304,324)		
Other investments	(4,064,654)	(419,225)	(645,654)	(842,273)
Investment income, net of investment expenses	342,684	317,627	60,802	58,447
Net cash provided (used) by investing activities	**157,275**	**74,180**	**(87,941)**	**(16,769)**
Net increase (decrease) in cash	**93,122**	**(25,681)**	**(9,022)**	**20,301**
Cash and cash equivalents, beginning of year	71,335	97,016	88,691	68,390
Cash and cash equivalents, end of year	**$ 164,457**	**$ 71,335**	**$ 79,669**	**$ 88,691**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2005 AND 2004 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2005	2004	2005	2004
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES				
Operating income (loss)	$(2,679,781)	$(2,804,357)	$(14,816)	$ 5,019
Adjustments to reconcile operating income (loss) to net cash used by operating activities:				
Depreciation and amortization expense	954,878	899,831		
Noncash gifts			(24,547)	(14,484)
Allowance for doubtful accounts	(1,152)	(3,294)	(2,314)	3,002
Loss on impairment of capital assets	2,491			
Change in assets and liabilities:				
Investments			(875)	(2,168)
Accounts receivable	(29,704)	13,161	(3,746)	452
Pledges receivable			28,134	(52,055)
Investments held by trustees	(69,706)	(45,163)	606	(536)
Inventories	(252)	(9,810)		
Other assets	(7,771)	(6,926)	1,786	(982)
Accounts payable	(11,234)	86,618	(7,355)	(5,374)
Accrued salaries and benefits	(39,283)	(2,637)		
Deferred revenue	27,931	(4,006)	(16)	(320)
Self-insurance	(5,134)	46,785		
Obligations to life beneficiaries			(1,871)	(1,300)
Other liabilities	36,487	(118,372)	(3,421)	2,015
Net cash used by operating activities	**$(1,822,230)**	**$(1,948,190)**	**$(28,435)**	**$(66,731)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$ 53,501	$ 76,495		
Capital assets acquired with a liability at year-end	103,130	72,783		
Investments held by trustees	205,242	(59,033)		
State financing appropriations	116,184	112,369		
Gifts of capital assets	54,880	69,085	$ 25,265	$ 4,188
Other noncash gifts	5,750	11,699	40,747	32,617
Gain (loss) on the disposal of capital assets	(36,715)	13,331	259	
Debt service for lease revenue bonds	(127,287)	(117,316)		
Securities lending activity	(1,037,714)	1,139,988	16,858	96,836

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

STATEMENTS OF PLANS' FIDUCIARY NET ASSETS

AT JUNE 30, 2005 AND 2004 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PLANS	UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PROGRAM PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2005	2005	2005	2004
ASSETS					
Investments	$ 42,440,204	$ 8,853,850	$ 78,225	$ 51,372,279	$47,003,436
Participants' interest in external mutual funds		2,358,936		2,358,936	2,083,016
Investment of cash collateral	7,901,277	2,992,580		10,893,857	9,297,520
Participant 403(b) loans		70,620		70,620	65,904
Accounts receivable:					
Contributions	80,427	27,895		108,322	112,918
Investment income	124,314	35,483		159,797	182,657
Security sales and other	118,502	11,364		129,866	172,265
Total assets	**50,664,724**	**14,350,728**	**78,225**	**65,093,677**	**58,917,716**
LIABILITIES					
Payable for securities purchases	781,247	63,576		844,823	174,661
Member withdrawals, refunds and other payables	126,507		452	126,959	104,333
Collateral held for securities lending	7,899,470	2,991,895		10,891,365	9,298,709
Total liabilities	**8,807,224**	**3,055,471**	**452**	**11,863,147**	**9,577,703**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Members' defined benefit plan benefits	41,857,500		77,773	41,935,273	39,263,399
Participants' defined contribution plan benefits		11,295,257		11,295,257	10,076,614
Total net assets held in trust for pension benefits	**$41,857,500**	**$11,295,257**	**$77,773**	**$53,230,530**	**$49,340,013**

See accompanying Notes to Financial Statements

STATEMENTS OF CHANGES IN PLANS' FIDUCIARY NET ASSETS

YEARS ENDED JUNE 30, 2005 AND 2004 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PLANS	UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PROGRAM PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2005	2005	2005	2004
ADDITIONS (REDUCTIONS)					
Contributions:					
Participants		$ 917,332		$ 917,332	$ 798,018
Members	$ 1,653			1,653	2,503
Employer	737	4,066		4,803	8,912
Total contributions	**2,390**	**921,398**		**923,788**	**809,433**
Investment income (expense), net:					
Net appreciation in fair value of investments	2,793,168	379,953	$ 7,525	3,180,646	4,564,427
Interest, dividends, and other investment income	1,171,547	317,814		1,489,361	1,279,260
Securities lending income	163,975	75,022		238,997	107,819
Investment expenses	(152,639)	(69,988)		(222,627)	(89,043)
Total investment income, net	**3,976,051**	**702,801**	**7,525**	**4,686,377**	**5,862,463**
Interest income from contributions receivable	6,865			6,865	7,196
Total additions	**3,985,306**	**1,624,199**	**7,525**	**5,617,030**	**6,679,092**
DEDUCTIONS					
Benefit payments:					
Retirement payments	823,891		5,482	829,373	734,699
Member withdrawals	70,560			70,560	57,236
Cost-of-living adjustments	160,925			160,925	148,558
Lump sum cashouts	172,144			172,144	123,853
Preretirement survivor payments	26,366			26,366	24,237
Disability payments	33,434			33,434	31,900
Death payments	6,888			6,888	6,494
Other benefit payments		439		439	499
Participant withdrawals		392,473		392,473	332,567
Total benefit payments	**1,294,208**	**392,912**	**5,482**	**1,692,602**	**1,460,043**
Expenses:					
Plan administration	20,184	12,644	9	32,837	34,164
Other	1,074			1,074	1,066
Total expenses	**21,258**	**12,644**	**9**	**33,911**	**35,230**
Total deductions	**1,315,466**	**405,556**	**5,491**	**1,726,513**	**1,495,273**
Increase in net assets held in trust for pension benefits	**2,669,840**	**1,218,643**	**2,034**	**3,890,517**	**5,183,819**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of year	39,187,660	10,076,614	75,739	49,340,013	44,156,194
End of year	**$41,857,500**	**$11,295,257**	**$ 77,773**	**$53,230,530**	**$49,340,013**

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

ORGANIZATION

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) are appointed by the Governor and approved by the State Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general purpose financial statements as a component unit.

FINANCIAL REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The University's financial statements include the accounts of ten campuses, five medical centers, a statewide agricultural extension program and the operations of most student government or associated student organizations as part of the primary financial reporting entity because The Regents has certain fiduciary responsibilities for these organizations. In addition, the financial position and operating results of certain other legally separate organizations are included in the University's financial reporting entity on a blended basis if The Regents is determined to be financially accountable for the organization. Specific assets and liabilities and all revenues and expenses associated with three major Department of Energy (DOE) laboratories operated and managed by the University under contract with the United States Department of Energy are also included in the financial statements. Organizations that are not significant or financially accountable to the University, such as booster and alumni organizations, are not included in the reporting entity. However, cash invested with the University by these organizations, along with the related liability, is included in the statement of net assets. The statement of revenues, expenses and changes in net assets excludes the activities associated with these organizations.

The University has ten legally separate, tax-exempt, affiliated campus foundations. The combined financial statements of the University of California campus foundations (campus foundations) are presented discretely in the University's financial statements because of the nature and significance of their relationship with the University, including their ongoing financial support of the University. Campus foundations may invest all or a portion of their investments in University-managed investment pools. Securities in these investment pools are included in the University's securities lending program. Accordingly, the campus foundations' investments in University-managed internal investment pools and their allocated share of the securities lending activities have been excluded from the University's financial statements and displayed in the campus foundations' column.

The Regents has fiduciary responsibility for the University of California Retirement System (the UCRS) consisting of two defined benefit and three defined contribution plans. The UCRS statements of plans' fiduciary net assets and changes in plans' fiduciary net assets are also presented discretely in the University's financial statements.

Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, was adopted during the year ended June 30, 2005. Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. The implementation of Statement No. 40 had no effect on the University's net assets, changes in net assets or cash flows for the years ended June 30, 2005 and 2004.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, was also adopted during the year ended June 30, 2005. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and whether any insurance recoveries should be offset against the impairment loss.

The effect of the implementation of GASB Statement No. 42 was not significant on the University's net assets or changes in net assets for the year ended June 30, 2005. There was no effect on the University's net assets or changes in net assets for the year ended June 30, 2004. However, proceeds from insurance recoveries attributable to capital assets are reported as a capital and related financing activity in the statement of cash flows. Accordingly, $3.0 million of proceeds from insurance recoveries in the prior year has been reclassified from other receipts in noncapital financing activities and reported separately as a capital and related financing activity.

The significant accounting policies of the University are as follows:

Cash and cash equivalents. The University and campus foundations consider all balances in demand deposit accounts to be cash. The University classifies all other highly liquid cash equivalents as short-term investments. Certain campus foundations classify their deposits in the University's Short Term Investment Pool as a cash equivalent.

Investments. Investments for the University and campus foundations are primarily recorded at fair value. Generally, securities, including derivative investments, are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Interests in venture capital partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because the venture capital partnerships are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value. Estimates of the fair value of interests in externally held irrevocable trusts where the University is the beneficiary of either the income or the remainder that will not become a permanent endowment upon distribution to the University are based upon the present value of the expected future income or, if available, the University's proportional interest in the fair value of the trust assets.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded based on fair value at date of donation.

Participants' interest in external mutual funds. Participants in the University's defined contribution retirement plans may invest their contributions in, and transfer plan accumulations to, funds managed by the Treasurer of The Regents (the Treasurer) or to certain external mutual funds on a custodial plan basis.

Foreign currency translation. Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statement of revenues, expenses and changes in net assets.

Accounts receivable. Accounts receivable include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, educational activities and amounts due from students, employees and faculty for services.

Pledges receivable. Unconditional pledges of private gifts to the University or to the campus foundations in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable. Loans to students are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other University sources. Mortgage loans provided by the Short Term Investment Pool are classified as investments and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

Inventories. Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined under the weighted average method, which is not in excess of net realizable value.

Contract with the United States Department of Energy. The University operates and manages three major DOE national laboratories under contract with the United States Department of Energy.

The University's statement of net assets includes the DOE laboratories' liabilities associated with vendor, employee-related and certain other costs, along with the corresponding receivable from the DOE to satisfy these liabilities. The noncurrent portion of these liabilities and receivable are attributable to compensated absence obligations to employees working at the national laboratories. Other assets, such as cash, property and equipment and other liabilities of these laboratories are owned by the United States government rather than the University and, therefore, are not included in the statement of net assets.

The statement of revenues, expenses and changes in net assets includes the operational results from the DOE laboratories. The statement of cash flows excludes the cash flows associated with the DOE laboratories since all cash transactions are recorded in bank accounts owned by the DOE.

Capital assets. Land, infrastructure, buildings and improvements, equipment, libraries and collections and special collections are recorded at cost at the date of acquisition, or estimated fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results. Capital leases are recorded at the present value of future minimum lease payments. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $3,000 and a useful life of more than one year is capitalized. All costs of land, library collections and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15–33 years
Equipment	2–20 years
Computer software	3–7 years
Library books and material	15 years

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets, such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections, are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project related borrowings.

Deferred revenue. Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

Funds held for others. Funds held for others result from the University or the campus foundations acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to the University or campus foundations.

Federal refundable loans. Certain loans to students are administered by the University with funding primarily supported by the federal government. The University's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Obligations under life income agreements. Obligations under life income agreements represent actuarially-determined liabilities under gift annuity and life income contracts.

Net assets. Net assets are required to be classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt. This category includes all of the University's capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The University and campus foundations classify net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally-imposed restrictions that must be retained in perpetuity by the University or the campus foundations are classified as nonexpendable net assets. Such assets include the University's permanent endowment funds.

Expendable. Net assets whose use by the University or the campus foundations is subject to externally-imposed restrictions that can be fulfilled by actions of the University or campus foundations pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. The University's unrestricted net assets may be designated for specific purposes by management or The Regents. The campus foundations' unrestricted net assets may be designated for specific purposes by their Boards of Trustees. Substantially all of the University's unrestricted net assets are allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Expenses are charged to either restricted or unrestricted net assets based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, the University's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

Revenues and expenses. Operating revenues of the University include receipts from student tuition and fees, grants and contracts for specific operating activities and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the University are presented in the statement of revenues, expenses and changes in net assets as operating activities.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of the University.

Campus foundations are established to financially support the University. Private gifts to campus foundations are recognized as operating revenues since, in contrast to the University, such contributions are fundamental to the core mission of the campus foundations. Foundation grants to the University are recognized as operating expenses. Private gift or capital gift revenues associated with campus foundation grants to the University are recorded by the University as the gifts are made.

Nonoperating revenues and expenses include state educational appropriations (for the support of University operating expenses), state financing appropriations, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense and gain or loss on the disposal of capital assets.

State capital appropriations, capital gifts and grants and gifts for endowment purposes are classified as other changes in net assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of the University. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations. The state of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant revenue.

Grant and contract revenue. The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with the University's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2005, the facilities and administrative cost recovery totaled $678.8 million, $556.3 million from federally sponsored programs and $122.5 million from other sponsors. For the year ended June 30, 2004, the facilities and administrative cost recovery totaled $639.4 million, $523.1 million from federally sponsored programs and $116.3 million from other sponsors.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payors, including Medicare, Medi-Cal and others for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement, or as additional information becomes available.

Scholarship allowances. The University recognizes scholarship allowances, including both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center fees, etc. and the amount that is paid by the student, as well as third parties making payments on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances in the following amounts are recorded as an offset to the following revenues for the years ended June 30, 2005 and 2004:

(in thousands of dollars)

	2005	2004
Student tuition and fees	$383,109	$ 338,271
Auxiliary enterprises	84,924	82,267
Other operating revenues	7,340	6,157
Scholarship allowances	**$475,373**	**$426,695**

Compensated absences. The University accrues annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs

Interest rate swap agreements. The University has entered into interest rate swap agreements to limit the exposure of its variable rate debt to changes in market interest rates. Interest rate swap agreements involve the exchange with a counterparty of fixed and variable rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The University's counterparties are major financial institutions.

In accordance with GASB standards, the fair value of the interest rate swap agreements is not reported in the University's statement of net assets and changes in fair value are not recognized in the statement of revenues, expenses and changes in net assets.

Tax exemption. The University and the campus foundations are qualified as tax-exempt organizations under the provisions of Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income. The UCRS plans are qualified under Section 401(a) and the related trusts are tax exempt under Section 501(a) of the Internal Revenue Code.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

Comparative information. As described below, certain revisions in classification have been made in the June 30, 2004 financial statements. The effect on prior period financial statements was not material. However, management elected to make the revisions to the 2004 presentation to conform to the 2005 presentation. These revisions in classification to the University's and campus foundations' 2004 financial statements had no effect on previously reported total assets, liabilities and net assets, or increase in net assets, or net increase or decrease in cash. Similarly, the adjustments to the UCRS' financial statements had no effect on previously reported total assets, liabilities and net assets held in trust for pension benefits, or increase in net assets held in trust for pension benefits.

In connection with the preparation of the June 30, 2005 statement of net assets, the University concluded that certain assets and liabilities included in (a) current assets/liabilities should have been classified as noncurrent assets/liabilities, (b) noncurrent assets/liabilities should have been included in current assets/liabilities and (c) certain annuity and life income funds were included in restricted, nonexpendable net assets rather than restricted, expendable net assets. The effect of the revisions in classification was to increase current assets and decrease noncurrent assets by $29.5 million, decrease current liabilities and increase noncurrent liabilities by $71.6 million and decrease restricted, nonexpendable net assets and increase restricted, expendable net assets by $8.1 million.

In connection with the preparation of the June 30, 2005 statement of cash flows, the University concluded that certain amounts were included in noncapital financing activities rather than capital and related financing activities and certain amounts were included in operating activities rather than noncapital financing activities. The effect of the revisions in classification was to decrease cash flows from operating activities by $22.7 million, decrease cash flows from noncapital financing activities by $25.7 million and increase cash flows from capital and financing activities by $3.0 million.

In the UCRS statement of changes in plans' fiduciary net assets, loan repayments from 403(b) participants are now recorded as an offset to participant withdrawals rather than as participant contributions. The effect on the 2004 presentation was to reduce both participant contributions and participant withdrawals by $34.1 million.

Certain other reclassifications were made to certain amounts included in the June 30, 2004 statements of revenues, expenses and changes in net assets and cash flows to conform to the June 30, 2005 financial statement presentation.

New accounting pronouncements. In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. Currently, the University records retiree medical and dental costs as they are paid and does not recognize the liability in the financial statements. The University is currently evaluating the effect that Statement No. 45 will have on its financial statements, although it is expected that there will be a significant increase in the University's operating expenses and liabilities, as well as a significant decrease in unrestricted net assets.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 47 requires benefits such as early retirement incentives or severance to employees who are involuntarily terminated to be recognized in the period the University becomes obligated to provide the benefits. Benefits provided to employees who voluntarily terminate must be recognized when the termination offer is accepted. The University is currently evaluating the effect that Statement No. 47 will have on its financial statements.

1. CASH AND CASH EQUIVALENTS

The University maintains centralized management for substantially all of its cash. Accounts are authorized at financial institutions that maintain a minimum credit quality rating of A from an independent bond rating agency. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

At June 30, 2005 and 2004, the carrying amount of the University's demand deposits, held in nationally recognized banking institutions, was $164.5 million and $71.3 million, respectively, compared to bank balances of $137.8 million and $53.9 million, respectively. Deposits in transit are the primary difference. Bank balances of $33.0 million and $5.9 million at June 30, 2005 and 2004, respectively, are collateralized by U.S. government securities held in the name of the bank. The Federal Deposit Insurance Corporation (FDIC) insures the remaining uncollateralized bank balances for at least $400 thousand for both years.

The University does not have a significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balances required to support research groups and education abroad programs in foreign countries were $1.2 million and $859 thousand at June 30, 2005 and 2004, respectively.

The carrying amount of the campus foundations' cash and cash equivalents at June 30, 2005 and 2004 was $79.7 million and $88.7 million, respectively, compared to bank balances of $56.8 million and $63.1 million, respectively. Deposits in transit are the primary difference. Included in bank balances are deposits in the University's Short Term Investment Pool of $22.0 million and $25.3 million at June 30, 2005 and 2004, respectively, with a portion of the remaining uncollateralized bank balances insured by the FDIC. The campus foundations do not have exposure to foreign currency risk in their cash and cash equivalents.

2. INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of the University's and the UCRS' investments and establishes investment policy, which is carried out by the Treasurer. These investments are associated with the Short Term Investment Pool (STIP), General Endowment Pool (GEP), UCRS, other investment pools managed by the Treasurer, or are separately invested. Pursuant to The Regents' policies on campus foundations, the Board of Trustees for each campus foundation may determine that all or a portion of their investments will be managed by the Treasurer. Asset allocation guidelines are provided to the campus foundations by the Investment Committee of The Regents.

The STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. Cash to provide for payroll, construction expenditures and other operating expenses for campuses and medical centers is invested in the STIP. The available cash in the UCRS or endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in the STIP.

Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, The Regents has also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms up to 40 years.

The GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. The GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds.

Other investment pools primarily facilitate annuity and life income arrangements. Separate investments are those that cannot be pooled due to investment restrictions or income requirements, or represent the University's estimated interest in externally held irrevocable trusts.

Investments authorized by The Regents for the GEP, UCRS, other investment pools and other separate investments include equity securities, fixed income securities and certain other asset classes. The equity portion of the investment portfolios includes both domestic and foreign common and preferred stocks which may be included in actively or passively managed strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-out and international funds. The University's investment portfolios may include certain foreign currency denominated equity securities. The fixed income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed income investment guidelines permit the use of futures and options on fixed income instruments in the ongoing management of the portfolios. Derivative contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. Real estate investments are authorized for both the GEP and the UCRS. Absolute return strategies, which may incorporate short sales, plus derivative or option positions to implement or hedge an investment position, are also authorized for the GEP. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The Regents have also authorized certain employee contributions to defined contribution plans included as part of the UCRS' investments to be maintained in external mutual funds on a custodial plan basis. The participants' interest in external mutual funds is not managed by the Treasurer and totaled $2.36 billion and $2.08 billion at June 30, 2005 and 2004, respectively.

Campus foundations' investments in pools managed by the Treasurer are classified for investment type purposes as either commingled balanced funds or commingled money market funds in the campus foundations' column depending on whether they are invested in the GEP or STIP, respectively. Similarly, the UCRS' investment in the STIP is classified in the commingled money market category in the UCRS column.

The composition of investments, by investment type, at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Equity securities:						
Domestic	$ 2,240,505	$ 2,694,288	$ 457,015	$ 533,202	$ 27,122,633	$ 25,328,715
Foreign	922,025	480,356	99,195	82,925	3,456,570	3,301,639
Equity securities	**3,162,530**	**3,174,644**	**556,210**	**616,127**	**30,579,203**	**28,630,354**
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	1,648,305	1,789,584	127,216	80,544	2,598,387	4,231,874
U.S. Treasury strips	193,062	63,835			1,919,297	678,427
U.S. TIPS	254,419				2,581,848	2,546,490
U.S. government-backed securities	4,288	4,250	6,042	8,968	16,696	14,449
U.S. government-backed–asset-backed securities	8,248	23,240	25	31	78,870	225,099
U.S. government guaranteed	**2,108,322**	**1,880,909**	**133,283**	**89,543**	**7,195,098**	**7,696,339**
Other U.S. dollar denominated:						
Corporate bonds	1,932,914	1,718,952	60,524	60,565	2,809,783	2,498,420
Commercial paper	2,910,091	2,850,244			788,560	
U.S. agencies	908,297	936,431	81,354	100,914	3,210,451	2,186,493
U.S. agencies–asset-backed securities	247,855	368,790	2,971	3,429	2,994,743	3,051,420
Corporate–asset-backed securities	52,820	20,460	3,240	1,858	553,811	278,108
Certificates of deposit/time deposits		93,565		536		
Supranational/foreign	911,665	923,448	640	714	737,758	680,013
Other	707	925	856	616	6,918	19,196
Other U.S. dollar denominated	**6,964,349**	**6,912,815**	**149,585**	**168,632**	**11,102,024**	**8,713,650**
Foreign currency denominated:						
Corporate	10,423	9,356			74,037	77,294
Foreign currency denominated	**10,423**	**9,356**			**74,037**	**77,294**
Commingled funds:						
Absolute return funds	441,851	250,253	148,016	53,217		
Balanced funds			504,619	412,005		
U.S. equity funds			291,870	353,862		
Non-U.S. equity funds	273,715	67,026	251,970	141,108	636,495	446,203
U.S. bond funds	44,799	3,952	228,860	269,808		
Non-U.S. bond funds			14,429	15,426		
Money market funds	7,304	2,832	343,260	269,565	534,683	389,870
Commingled funds	**767,669**	**324,063**	**1,783,024**	**1,514,991**	**1,171,178**	**836,073**
Private equity	120,116	101,104	110,739	75,351	675,666	618,041
Mortgage loans	99,021	45,119	4,546	13,028		
Insurance contracts					512,468	431,685
Real estate	24,940	15,168	67,319	60,252	62,605	
Externally held irrevocable trusts	194,883	191,261	62,094	55,392		
Other investments	3,507	7,115	83,290	3,934		
Campus foundations' investments with the University	(861,196)	(714,316)				
UCRS investment in the STIP	(519,664)	(389,870)				
Total investments	**12,074,900**	**11,557,368**	**2,950,090**	**2,597,250**	**$ 51,372,279**	**$ 47,003,436**
Less: Current portion	(3,889,940)	(3,097,348)	(341,603)	(260,647)		
Noncurrent portion	**$ 8,184,960**	**$ 8,460,020**	**$ 2,608,487**	**$ 2,336,603**		

Net appreciation (depreciation) in the fair value of investments includes all changes in fair value, including both realized and unrealized gains and losses that occurred during the year. The calculation of realized gains and losses is independent of the unrealized appreciation or depreciation in the fair value of investments held at year-end.

The components of the net appreciation in the fair value of investments for the years ended June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Realized gains on sale of investments	$205,270	$ 501,205	$ 86,027	$ 80,361	$ 926,004	$ 4,372,716
Unrealized appreciation (depreciation)	72,874	(210,086)	64,742	140,513	2,254,642	191,711
Net appreciation in fair value of investments	**$278,144**	**$ 291,119**	**$150,769**	**$220,874**	**$3,180,646**	**$4,564,427**

The University of California Retirement System's unrealized appreciation on investments held at year-end includes amounts related to the participants' interest in external mutual funds. The net unrealized appreciation related to these external mutual funds was $110.8 million for the year ended June 30, 2005. For the year ended June 30, 2004, the net unrealized appreciation was $270.5 million.

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance — in the rating agency's opinion — that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The investment guidelines for the STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark (the benchmark for the STIP, the two-year Treasury note, has no credit risk). No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of the STIP must be A or better and commercial paper must be rated at least A-1 or P-1.

The University recognizes that credit risk is appropriate in balanced investment pools such as the UCRS and GEP by virtue of the benchmark chosen for the fixed income portion of those pools. That fixed income benchmark, the Citigroup Large Pension Fund Index (LPF), is comprised of approximately 30 percent high grade corporate bonds and 30 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 40 percent are government-issued bonds. Credit risk in the UCRS and GEP is managed primarily by diversifying across issuers and portfolio guidelines mandate that no more than 10 percent of the market value of fixed income securities may be invested in issues with credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

The credit risk profile for fixed and variable income securities at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Fixed or variable income securities:						
U.S. government guaranteed	$2,108,322	$1,880,909	$133,283	$ 89,543	$7,195,098	$7,696,339
Other U.S. dollar denominated:						
AAA	1,598,678	1,772,714	90,112	108,709	7,016,174	5,781,243
AA	1,126,240	924,604	1,758	1,970	163,928	170,431
A	698,977	618,471	13,675	15,742	1,122,387	796,305
BBB	526,509	629,975	22,165	34,567	1,575,264	1,697,717
BB	103,848	28,581	20,723	3,662	435,711	210,306
B		616,935	488	2,756		18,410
A-1 / P-1	2,910,092	2,100,648			788,560	
Not rated	5	220,887	664	1,226		39,238
Foreign currency denominated:						
A	2,822	3,010			67,779	58,899
BB	894	2,274			6,258	13,641
Not rated	6,707	4,072				4,754
Commingled funds:						
U.S. bond funds: Not rated	44,799	3,952	228,860	269,808		
Non-U.S. bond funds: Not rated			14,429	15,426		
Money market funds: Not rated	7,304	2,832	343,260	269,565	534,683	389,870
Mortgage loans: Not rated	99,021	45,119	4,546	13,028		
Insurance contracts: Not rated					512,468	431,685

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

The University of California and the University of California Retirement System's securities are registered in the University's name by the custodial bank as an agent for the University. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Some of the investments at certain of the University of California campus foundations are exposed to custodial credit risk. These investments may be uninsured, or not registered in the name of the campus foundation and held by a custodian.

Custodial credit risk exposure related to investments at the University of California campus foundations is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2005	2004
Equity securities:		
Domestic	$193,151	$238,495
Foreign	12,844	10,073
Fixed or variable income securities:		
U.S. government guaranteed:		
U.S. Treasury bills, notes and bonds	46,302	11,326
U.S. government-backed securities	1,604	1,815
Other U.S. dollar denominated:		
Corporate bonds	16,467	18,783
U.S. agencies	24,033	32,522
Corporate-asset-backed securities	275	504
Custodial credit risk exposure	**$294,676**	**$313,518**

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

The U.S. and non-U.S. equity portions of the University and UCRS portfolios may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the University considers that passive management results in an absence of concentration of credit risk. For the portion managed actively, portfolio guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class, in the aggregate, will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters.

Investment guidelines addressing concentration of credit risk related to the fixed income portion of the University and UCRS portfolios include a limit of no more than 3 percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the STIP.

Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk.

Investments in issuers that represent 5 percent or more of total investments at June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Federal National Mortgage Association	$701,673		$40,627	$42,183	$3,545,401	$3,311,037
Federal Home Loan Mortgage Association				25,793		

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the liquidity demands of the investors. The nature and maturity of individual securities in the STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

Portfolio guidelines for the fixed income portion of the UCRS and GEP limit weighted average effective duration to the effective duration of the benchmark (Citigroup Large Pension Fund), plus or minus 20 percent.

The effective durations for fixed or variable income securities at June 30, 2005 and 2004 are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	2.8	3.3	1.3	2.2	2.1	5.3
U.S. Treasury strips	14.0	12.7			14.0	10.6
U.S. TIPS	4.4				4.4	8.1
U.S. government-backed securities	6.9	7.1	3.6	2.7	6.9	7.1
U.S. government-backed–asset-backed securities	2.6	3.7	0.6	1.7	2.7	3.9
Other U.S. dollar denominated:						
Corporate bonds	2.9	3.4	5.4	5.7	9.1	8.4
Commercial paper	0.0	0.0			0.0	
U.S. agencies	1.8	2.4	1.6	1.8	3.2	4.4
U.S. agencies–asset-backed securities	2.3	3.3	0.9	3.2	2.3	3.4
Corporate–asset-backed securities	1.5	3.8	1.6	3.9	1.7	3.4
Certificates of deposit/time deposits		0.1		1.0		
Supranational/foreign	2.3	3.0	2.8	0.6	8.3	6.5
Other	8.1	9.3	2.8	1.7	14.8	14.8
Foreign currency denominated:						
Corporate	23.2	17.0			13.1	11.9
Commingled funds:						
U.S. bond funds	4.2	4.8	4.1	4.3		
Non-U.S. bond funds			5.0	4.6		
Money market funds	0.0	0.0	2.1	1.4	2.1	1.4
Mortgage loans	0.0	0.0	0.0	0.0		
Insurance contracts					0.0	0.0

The University considers the effective durations for mortgage loans, insurance contracts and money market funds to be zero. The terms of the mortgage loans include variable interest rates, insurance contracts can be liquidated without loss of principal and money market funds have a constant $1 share value due to the short-term, liquid nature of the underlying securities.

Investments may also include various mortgage pass-through securities, collateralized mortgage obligations, structured notes, variable-rate securities, callable bonds and convertible bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the effective durations of these securities may be low.

At June 30, 2005 and 2004, the fair values of such investments are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Mortgage-backed securities	$308,923	$378,001	$56,231	$63,958	$3,522,099	$3,115,183
Collateralized mortgage obligations		14,029	19,944	28,533	105,325	161,336
Other asset-backed securities		20,460	2,965	1,354		278,108
Callable bonds	22,160	117,077	1,245	1,461	880,196	699,561
Total	**$331,083**	**$529,567**	**$80,385**	**$95,306**	**$4,507,620**	**$4,254,188**

Mortgage Pass-Through Securities. These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations. Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

Other Asset-Backed Securities. Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.

Callable Bonds. Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The University must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, 2005 and 2004, the effective durations for these securities are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Mortgage backed securities	2.1	3.3	1.5	1.5	1.8	3.4
Collateralized mortgage obligations		2.2	1.5	1.8	3.5	4.3
Other asset-backed securities		3.8	1.7	4.9		3.4
Callable bonds	5.2	5.4	1.5	5.0	4.0	5.3

Foreign Currency Risk

The University's strategic asset allocation policy for the UCRS and GEP includes an allocation to non-US equities. These equity investments are not hedged, therefore foreign currency risk is an essential part of the investment strategy. Portfolio guidelines for fixed income securities also allow exposure to non-US dollar denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the investment University's policies, such instruments are not permitted for speculative use or to create leverage.

At June 30, 2005 and 2004, the foreign currency risk expressed in U.S. dollars, organized by currency denomination and investment type, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Equity securities						
Euro	$ 389,606	$ 147,973	$ 25,176	$ 19,874	$ 1,489,910	$1,017,066
British Pound	106,799	111,615	19,616	15,796	356,110	767,163
Japanese Yen	76,623	109,239	20,855	18,830	256,755	750,837
Swiss Franc	36,087	32,273	6,669	6,204	124,430	221,822
Canadian Dollar	12,175	28,609	5,396	4,449	41,978	196,636
Australian Dollar	41,335	22,134	5,548	4,201	157,685	152,136
Swedish Krona	40,824	10,886	1,990	1,473	160,911	74,824
Hong Kong Dollar	16,883	7,143	1,890	1,404	57,041	49,099
Singapore Dollar	124,181	3,576	858	1,241	503,627	24,577
Danish Krone	37,484	3,540	319	353	151,988	24,334
Norwegian Krone	22,671	2,401		1,146	89,768	16,501
New Zealand Dollar	13,119	967	142		52,350	6,644
South African Rand	2,276		848	419	7,529	
Other	1,962		9,888	7,535	6,488	
Subtotal	**922,025**	**480,356**	**99,195**	**82,925**	**3,456,570**	**3,301,639**
Fixed income securities:						
Canadian Dollar	10,423	9,356				77,294
Australian Dollar					74,037	
Subtotal	**10,423**	**9,356**			**74,037**	**77,294**
Commingled funds:						
Various currency denominations:						
Balanced funds				43,560		
Non-U.S. equity funds	273,715	67,026		95,383	636,495	446,203
Non-U.S. bond funds				2,035		
Subtotal	**273,715**	**67,026**		**140,978**	**636,495**	**446,203**
Total exposure to foreign currency risk	**$1,206,163**	**$556,738**	**$99,195**	**$223,903**	**$4,167,102**	**$3,825,136**

Futures, Options and Swaps

The University may include futures, options and swap contracts in its investment portfolios. The Board of Trustees for each campus foundation may also authorize these contracts in its investment policy.

The University enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the University agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. Since these contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of revenues, expenses and changes in net assets, there is no fair value for these contracts at the end of the year included in the statement of net assets. The underlying notional value of these contracts at June 30, 2005 for the University and the UCRS was $42.6 million and $426.4 million, respectively, and at June 30, 2004 was $69.4 million and $337.7 million, respectively.

An option contract gives the University the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the "premium"). The maximum loss to the University is limited to the premium originally paid for covered options. The University records premiums paid for the purchase of these options in the statement of net assets as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. Neither the University nor the UCRS held any option contracts at June 30, 2005 or June 30, 2004.

An interest rate swap is a contractual agreement entered into between the University and a counterparty under which each agrees to exchange periodic fixed or variable interest payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The University records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. Neither the University nor the UCRS held any interest rate swap contracts at June 30, 2005 or June 30, 2004.

The University could be exposed to risk if the counterparty to the contracts was unable to meet the terms of the contracts. Counterparty credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counterparty to meet the terms of an option contract that the University may exercise. Either risk is remote for exchange-traded contracts. Additional risk may arise from futures contracts traded in non-U.S. markets as the foreign futures contracts are cleared on, and subject to, the rules of foreign boards of trade. In addition, funds provided for foreign futures contracts may not be afforded the same protection as funds received in respect of U.S. transactions. The University seeks to control counterparty credit risk in all derivative contracts that are not exchange-traded through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by the Treasurer.

The University's Investment Pools

The composition of the University of California's investments at June 30, 2005, by investment pool, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	STIP	GEP	OTHER	TOTAL
Equity securities:				
Domestic		$2,151,377	$ 89,128	$ 2,240,505
Foreign		904,854	17,171	922,025
Fixed or variable income securities:				
U.S. government guaranteed	$1,572,488	459,871	75,963	2,108,322
Other U.S. dollar denominated	6,087,589	805,301	71,459	6,964,349
Foreign currency denominated		10,423		10,423
Commingled funds		720,675	46,994	767,669
Private equity		117,255	2,861	120,116
Mortgage loans	98,450		571	99,021
Real estate		6,906	18,034	24,940
Externally held irrevocable trusts			194,883	194,883
Other investments			3,507	3,507
Subtotal	**7,758,527**	**5,176,662**	**520,571**	**13,455,760**
Campus foundations' investments with the University	(332,190)	(438,476)	(90,530)	(861,196)
UCRS investment in the STIP	(519,664)			(519,664)
Total investments	**$6,906,673**	**$4,738,186**	**$430,041**	**$12,074,900**

The total investment return, representing the combined income plus net appreciation in the fair value of investments, for the year ended June 30, 2005 was 10.3 percent for the GEP and 9.8 percent for the UCRS. The investment return, representing combined income and realized gains or losses, for the STIP during the same period was 3.6 percent. Other investments consist of numerous, small portfolios of investments, or individual securities, each with its individual rate of return.

Related Party Relationships with the University

The UCRS and campus foundations may invest available cash in the STIP. Shares are purchased or redeemed in the STIP at a constant value of $1 per share. Actual income earned, including any realized gains or losses on the sale of the STIP investments, is allocated to the UCRS and campus foundations based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in the STIP are recorded by the University of California as the manager of the pool.

The campus foundations may purchase or redeem shares in the GEP or other investment pools at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to the campus foundations based upon the number of shares held.

Campus Foundations

Campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Treasurer are excluded from the University's statement of net assets and included in the campus foundations' statement of net assets. Under the accounting policies elected by each separate foundation, certain foundations classify all or a portion of their investment in the STIP as cash and cash equivalents, rather than investments. Substantially all of the campus foundations' investments managed by the Treasurer are categorized as commingled funds by the campus foundations in the composition of investments.

The fair value of the campus foundations' cash and cash equivalents and investments that are invested with the University, by investment pool, at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	2005	2004
STIP	$332,190	$271,185
GEP	438,476	380,395
Other investment pools	63,055	60,633
Separate investments	27,475	2,103
Campus foundations' investments with the University	**861,196**	**714,316**
Classified as cash and cash equivalents by campus foundations	(22,024)	(25,286)
Classified as investments by campus foundations	**$839,172**	**$689,030**

Endowment investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by and distributed to the campus foundations totaling $28.9 million and $26.7 million for the years ending June 30, 2005 and 2004, respectively.

The UCRS

The UCRS had $519.7 million and $389.9 million invested in the STIP at June 30, 2005 and 2004, respectively. These investments are also excluded from the University's statement of net assets and are included in the UCRS' statement of plans' fiduciary net assets and categorized as commingled funds in the composition of investments. The STIP investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by and distributed to the UCRS totaling $16.5 million and $11.4 million for the years ended June 30, 2005 and 2004, respectively.

Agency Relationships with the University

The STIP and GEP may also include investments on behalf of external organizations that are associated with the University, although not significant or financially accountable to the University. These organizations are not required to invest in these pools. As with the UCRS and campus foundations, participants purchase or redeem shares in the STIP at a constant value of $1 per share and purchase or redeem shares in the GEP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The fair value of these investments in each investment pool and the related liability associated with these organizations that are included in the University's statement of net assets at June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	2005	2004
Short-term investments:		
STIP	$ 91,299	$ 81,640
GEP	113,109	113,192
Other investments	31,850	21,723
Total agency assets	**$236,258**	**$216,555**
Funds held for others	**$236,258**	**$216,555**

The composition of the net assets at June 30, 2005 and 2004 for the STIP and GEP is as follows:

(in thousands of dollars)

	STIP		GEP	
	2005	2004	2005	2004
Investments	$ 7,758,527	$ 7,503,499	$5,176,662	$ 4,719,127
Investment of cash collatera	1,874,856	2,259,130	870,610	1,545,188
Securities lending collateral	(1,874,428)	(2,259,419)	(870,411)	(1,545,386)
Other assets and liabilities, net	164,884	87,359	(23,087)	7,289
Net assets	$ 7,923,839	$ 7,590,569	$5,153,774	$ 4,726,218

The changes in net assets for the STIP and GEP for the years ending June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	STIP		GEP	
	2005	2004	2005	2004
Net assets, beginning of year	$7,590,569	$7,243,179	$4,726,218	$4,364,498
Investment income	257,079	228,731	132,116	123,388
Net appreciation (depreciation) in fair value of investments	(56,415)	(197,522)	296,536	373,216
Participant contributions (withdrawals), net	132,606	316,181	(1,096)	(134,884)
Net assets, end of year	$7,923,839	$7,590,569	$5,153,774	$4,726,218

3. SECURITIES LENDING

The University and the UCRS jointly participate in a securities lending program as a means to augment income. Campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Treasurer are included in the University's investment pools that participate in a securities lending program. The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral and collateral held for securities lending is determined based upon their equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program.

Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the University or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the University unless the borrower defaults.

Loans of domestic equities and all fixed income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by the lending agent, as an agent for the University, in an investment pool in the name of the University, with guidelines approved by the University. These investments are shown as investment of cash collateral in the statement of net assets. At June 30, 2005 and 2004, the securities in this pool had a weighted average maturity of 30 and 41 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. Securities collateral received from the borrower is held in an investment pool by the University's custodial bank.

At June 30, 2005, the University had no exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University. The University is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

The composition of the securities lending programs at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
SECURITIES LENT						
For cash collateral:						
Equity securities:						
Domestic	$ 179,376	$ 1,012,909	$ 49,617	$ 33,494	$ 1,714,511	$ 483,877
Foreign	168,027	111,302	5,735	5,562	640,123	723,309
Fixed income securities:						
U.S. government guaranteed	1,653,615	1,705,829		56	6,328,288	6,622,737
Other U.S. dollar denominated	745,494	937,396		52	1,970,652	1,312,405
Campus foundations' share	(230,783)	(226,086)	230,783	226,086		
Lent for cash collateral	**2,515,729**	**3,541,350**	**286,135**	**265,250**	**10,653,574**	**9,142,328**
For securities collateral:						
Equity securities:						
Domestic	5,412	3,758			66,978	11,897
Foreign	3,715	1,409			12,438	9,157
Fixed income securities:						
U.S. government guaranteed	139,368	117,868			686,166	450,939
Other U.S. dollar denominated	100,499	59,101			243,053	60,016
Lent for securities collateral	**248,994**	**182,136**			**1,008,635**	**532,009**
Total securities lent	**$2,764,723**	**$3,723,486**	**$286,135**	**$265,250**	**$11,662,209**	**$9,674,337**
COLLATERAL RECEIVED						
Cash	$ 2,808,327	$ 3,840,847	$ 57,118	$ 40,260	$ 10,891,365	$ 9,298,709
Campus foundations' share	(230,783)	(226,086)	230,783	226,086		
Total cash collateral received	**2,577,544**	**3,614,761**	**287,901**	**266,346**	**10,891,365**	**9,298,709**
Securities	256,335	188,275			1,037,456	539,776
Total collateral received	**$2,833,879**	**$3,803,036**	**$287,901**	**$ 266,346**	**$11,928,821**	**$9,838,485**
INVESTMENT OF CASH COLLATERAL						
Fixed income securities:						
Other U.S. dollar denominated:						
Corporate bonds	$ 556,047	$ 685,629	$ 22,996	$ 14,598	$ 2,156,483	$1,659,912
Commercial paper	165,808	629,021			643,046	1,522,864
Repurchase agreements	497,421	233,849	8,711	6,161	1,929,119	566,151
U.S. agencies		234,346				567,351
Corporate-asset-backed securities	402,622	633,169	7,398	7,503	1,561,463	1,532,905
Certificates of deposit/time deposits	996,601	1,171,927	6,997	9,498	3,865,060	2,837,239
Supranational/foreign	188,870	204,419			732,482	494,898
Other			10,997	2,500		
Commingled funds–money market funds		43,810	19			106,063
Other assets, net	1,600	4,185			6,204	10,137
Campus foundations' share	(230,783)	(226,086)	230,783	226,086		
Investment of cash collateral	**2,578,186**	**3,614,269**	**287,901**	**266,346**	**$10,893,857**	**$9,297,520**
Less: Current portion	(1,846,094)	(3,004,420)	(222,369)	(228,198)		
Noncurrent portion	**$ 732,092**	**$ 609,849**	**$ 65,532**	**$ 38,148**		

The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The University receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Securities lending income	$ 66,199	$ 32,228	$7,239	$ 2,753	$ 238,997	$107,819
Securities lending fees and rebates	(61,622)	(26,553)	(6,733)	(2,227)	(222,473)	(88,834)
Securities lending investment income, net	**$ 4,577**	**$ 5,675**	**$ 506**	**$ 526**	**$ 16,524**	**$ 18,985**

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The University and the UCRS investment policies and other information related to each of these risks are summarized below. Campus foundations that participate in a securities lending program may have their own individual investment policies designed to limit the same risks.

Credit Risk

The University's and the UCRS' investment policies for the investment of cash collateral maintained in a separately managed collateral pool restricts the credit rating of issuers to no less than A-1 or P-1 for short term securities and no less than A2/A for long term securities. Asset-backed securities must have a rating of AAA.

The credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Fixed or variable income securities:						
Other U.S. dollar denominated:						
AAA	$ 434,807	$1,033,912	$ 9,398	$ 7,510	$1,686,289	$2,503,104
AA	505,171	461,867	25,491	9,112	1,959,175	1,118,182
A	221,905	79,314	9,999	15,475	860,600	192,019
A-1 / P-1	1,645,486	2,217,267	3,499	2,002	6,381,589	5,368,015
Not rated			8,712	6,161		
Commingled funds:						
Money market funds: Not rated		43,810	19			106,063
Other assets, net: Not rated	1,600	4,185			6,204	10,137
Campus foundations' share	(230,783)	(226,086)	230,783	226,086		

Custodial Credit Risk

Cash collateral received for securities lent is invested in a pool by the University's custodian. The University of California and the UCRS securities related to the investment of cash collateral are registered in the University's name by the custodial bank as agent for the University. Securities collateral received for securities lent are held in an investment pool by the University's custodial bank. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The University's and the UCRS' investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pool restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value. The campus foundation that directly participates in a securities lending program does not have a specific investment policy related to concentration of credit risk, although the lending agreement with the agent establishes restrictions for the type of investments and minimum credit ratings.

Investments in issuers that represent 5 percent or more of the total investment of cash collateral at the campus foundation at June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2005	2004
John Hancock		$2,600
AIG Sun America	$2,998	3,000
Merrill Lynch Repo Agreement		6,161
Deutsche Bank Securities	8,711	

Interest Rate Risk

The nature of individual securities in the collateral pool allows for the use of weighted average maturity as an effective risk management measure. The University's and the UCRS' investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pool requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

The weighted average maturity expressed in days for fixed or variable income securities associated with the investment of cash collateral at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Fixed or variable income securities:						
Other U.S. dollar denominated:						
Corporate bonds	50	46	43	35	50	46
Commercial paper	23	26			23	26
Repurchase agreements	1		1	1	1	
U.S. agencies		136				136
Corporate-asset-backed securities	35	23	25	24	35	23
Certificates of deposit/time deposits	37	38	17	18	37	38
Supranational/foreign	26	76			26	76
Other			25	23		
Commingled funds:						
Money market funds		1	1			1

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30, 2005 and 2004, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2005	2004	2005	2004	2005	2004
Other asset-backed securities	$ 412,259	$ 633,169	$ 7,398	$ 7,503	$1,598,840	$1,532,905
Variable-rate investments	713,746	707,578			2,768,077	1,713,050
Campus foundations' share	(92,547)	(78,931)	92,547	78,931		
Total	$1,033,458	$1,261,816	$99,945	$86,434	$4,366,917	$3,245,955

At June 30, 2005 and 2004, the weighted average maturity expressed in days for asset-backed securities was 34 days and 20 days, respectively, and for variable-rate investments was 46 days and 56 days, respectively.

Foreign Currency Risk

The University's and the UCRS' investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in a separate collateral pool restricts investments to U.S. dollar denominated securities. Therefore, there is no foreign currency risk.

4. INVESTMENTS HELD BY TRUSTEES

The University has entered into agreements with trustees to maintain trusts for the University's self-insurance programs, long-term debt requirements, capital projects and certain other requirements. In addition, the state of California retains on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects. The combined fair value of all of the investments and deposits held by trustees was $948.4 million and $575.4 million at June 30, 2005 and 2004, respectively.

Self-Insurance Programs

Investments held by trustees for self-insurance programs include separate trusts for the workers' compensation and professional medical and hospital liability programs. Securities are held by the trustee in the name of the University. The trust agreements permit the trustee to invest in U.S. and state government or agency obligations, corporate debt securities, commercial paper or certificates of deposit

The composition of cash and investments and effective duration associated with fixed income securities for self-insurance programs at June 30, 2005 and 2004, respectively, is as follows:

(in thousands of dollars)

	INVESTMENTS AT FAIR VALUE		EFFECTIVE DURATION	
	2005	2004	2005	2004
Cash	$ 1,738	$ 1,476	0.0	0.0
U.S. government guaranteed:				
U.S. Treasury bills, notes and bonds	4,037	10,354	0.9	1.1
U.S. government-backed–asset-backed securities	47,459	44,392	2.0	1.6
Other U.S. dollar denominated:				
Corporate–asset-backed securities	62,497	45,473	3.9	3.7
U.S. agencies–asset-backed securities	308,658	248,812	2.6	1.9
Commingled funds–money market funds	18,274	21,695	0.0	0.0
Total	$442,663	$372,202		

Asset-backed securities, generally collateralized mortgage obligations, with underlying government agency collateral or credit ratings ranging from A to AAA, are utilized within the investment constraints in order to enhance investment returns over other high-grade fixed income asset classes.

Long-Term Debt

Investments held by trustees for future payment of principal and interest in accordance with various indenture and other long-term debt requirements totaled 96.5 million and $96.2 million at June 30, 2005 and 2004, respectively.

The state financing appropriations to the University are deposited in commingled U.S. bond funds managed by the State of California Treasurer's Office, as trustee, and used to satisfy the annual lease requirements under lease-purchase agreements with the state. The fair value of these deposits was $79.1 million and $78.9 million at June 30, 2005 and 2004, respectively.

In addition, other securities held by trustees are held in the name of the University. These trust agreements permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements. The fair value of these investments was $17.4 million and $17.3 million at June 30, 2005 and 2004, respectively.

Capital Projects

Investments held by trustees to be used for capital projects totaled $408.1 million and $105.2 million at June 30, 2005 and 2004, respectively.

Proceeds from the sale of the state's lease-revenue bonds to be used for financing certain of the University's capital projects are deposited in a commingled U.S. bond fund managed by the State of California's Treasurer's Office, as trustee, and distributed to the University as the projects are constructed. The fair value of these deposits was $298.0 million and $92.8 million at June 30, 2005 and 2004, respectively.

In addition, proceeds from the sale of bonds and certain gifts to the University are held by trustees to be used for financing other capital projects. The fair value of these investments was $110.1 million and $12.4 million at June 30, 2005 and 2004, respectively.

Substantially all of these investments are of a highly liquid, short term nature.

University deposits into the trusts, or receipts from the trusts, are classified as an operating activity in the University's statement of cash flows if related to the self-insurance programs, or a capital and related financing activity if related to long-term debt requirements or a capital project. Deposits directly into trusts by third parties, investment transactions initiated by trustees in conjunction with the management of trust assets, and payments from trusts directly to third parties are not included in the University's statement of cash flows.

5. ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTERS	INVESTMENT INCOME	OTHER	TOTAL	
At June 30, 2005						
Accounts receivable	$559,531	$ 823,089	$68,326	$473,730	$1,924,676	$ 9,512
Allowance for uncollectible amounts		(143,934)		(34,888)	(178,822)	
Accounts receivable, net	**$559,531**	**$ 679,155**	**$68,326**	**$438,842**	**$1,745,854**	**$9,512**
At June 30, 2004						
Accounts receivable	$568,745	$814,727	$69,188	$506,777	$1,959,437	$5,828
Allowance for uncollectible amounts	(148)	(147,483)		(33,658)	(181,289)	
Accounts receivable, net	**$568,597**	**$ 667,244**	**$69,188**	**$473,119**	**$1,778,148**	**$5,828**

The University's other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, investment sales, tuition and fees and auxiliary enterprises.

The University of California campus foundations' accounts receivable are primarily related to investment income.

Retirement System Contribution

The state of California agreed to make contributions related to certain prior years to the University for the University of California Retirement Plan in annual installments over 30 years. During each of the years ended June 30, 2005 and 2004, under the terms of these agreements, the state of California contributed $11.3 million, including interest at rates ranging from 8.0 percent to 8.5 percent. At June 30, 2005 and 2004, the remaining amounts owed to the retirement plan by the state were $78.8 million and $83.2 million, respectively. These amounts are recorded in the University's statement of net assets as a receivable from the state of California and as a liability owed to the University of California Retirement Plan. The University of California Retirement Plan has the equivalent amounts recorded as a contribution receivable from the University in its statement of plans' fiduciary net assets.

6. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2005 and 2004 is summarized as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2005	2004	2005	2004
Total pledges receivable outstanding	$141,910	$ 140,301	$ 545,926	$ 589,562
Less: Unamortized discount to present value	(6,849)	(4,358)	(94,237)	(106,165)
Allowance for uncollectible pledges	(31,898)	(29,047)	(25,039)	(30,854)
Total pledges receivable, net	**103,163**	**106,896**	**426,650**	**452,543**
Less: Current portion of pledges receivable	(34,370)	(34,687)	(127,343)	(113,242)
Noncurrent portion of pledges receivable	**$ 68,793**	**$ 72,209**	**$ 299,307**	**$ 339,301**

Future pledge payments for each of the five fiscal years subsequent to June 30, 2005 and thereafter are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
Year Ending June 30		
2006	$ 40,959	$134,822
2007	26,062	65,792
2008	29,861	53,496
2009	12,588	36,302
2010	28,471	23,695
2011-2015	3,669	192,352
Beyond 2015	300	39,467
Total payments on pledges receivable	***$141,910***	***$545,926***

7. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2005 and 2004, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		
		NONCURRENT					
	CURRENT	NOTES	MORTGAGES	TOTAL	CURRENT	NONCURRENT	TOTAL
At June 30, 2005							
Notes and mortgages receivable	$ 40,851	$ 238,288	$ 25,444	$ 263,732	$844	$ 69	$ 913
Allowance for uncollectible amounts	(5,179)	(13,332)	(80)	(13,412)			
Notes and mortgages receivable, net	**$35,672**	**$224,956**	**$25,364**	**$250,320**	**$844**	**$ 69**	**$ 913**
At June 30, 2004							
Notes and mortgages receivable	$ 37,514	$253,945	$ 21,560	$275,505	$ 541	$1,300	$1,841
Allowance for uncollectible amounts	(5,746)	(11,295)	(236)	(11,531)			
Notes and mortgages receivable, net	**$31,768**	**$242,650**	**$21,324**	**$263,974**	**$541**	**$1,300**	**$1,841**

8. CAPITAL ASSETS

The University's capital asset activity for the years ended June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	2003	ADDITIONS	DISPOSALS	2004	ADDITIONS	DISPOSALS	2005
ORIGINAL COST							
Land	$ 391,029	$ 46,320	$ (658)	$ 436,691	$ 53,488	$ (494)	$ 489,685
Infrastructure	318,983	39,211	(200)	357,994	6,096	(784)	363,306
Buildings and improvements	12,050,529	903,251	(19,503)	12,934,277	1,418,219	(21,870)	14,330,626
Equipment	4,203,915	548,318	(300,665)	4,451,568	452,700	(650,448)	4,253,820
Libraries and collections	2,573,943	104,515		2,678,458	109,932		2,788,390
Special collections	224,500	7,495	(318)	231,677	14,060	(159)	245,578
Construction in progress	2,176,894	817,969		2,994,863	316,637		3,311,500
Capital assets, at original cost	**$21,939,793**	**$2,467,079**	**$(321,344)**	**$24,085,528**	**$2,371,132**	**$(673,755)**	**$25,782,905**

	2003	DEPRECIATION AND AMORTIZATION	DISPOSALS	2004	DEPRECIATION AND AMORTIZATION	DISPOSALS	2005
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 140,285	$ 13,062	$ (123)	$ 153,224	$ 11,198	$ (784)	$ 163,638
Buildings and improvements	4,575,120	406,763	(8,585)	4,973,298	448,528	(10,352)	5,411,474
Equipment	2,801,960	387,398	(259,024)	2,930,334	401,051	(609,468)	2,721,917
Libraries and collections	1,768,882	92,588		1,861,470	94,101		1,955,571
Accumulated depreciation and amortization	**$ 9,286,247**	**$899,811**	**$(267,732)**	**$ 9,918,326**	**$ 954,878**	**$(620,604)**	**$10,252,600**
Capital assets, net	**$12,653,546**			**$14,167,202**			**$15,530,305**

In January 2004, the University sold surplus land with net proceeds totaling $53.8 million. The University transferred these proceeds to the state of California. The transfer was included in other nonoperating expenses in the statement of revenues, expenses and changes in net assets.

9. SELF-INSURANCE, OBLIGATIONS UNDER LIFE INCOME AGREEMENTS AND OTHER LIABILITIES

The University's self insurance and other liabilities, primarily employee leave and other compensated absences with similar characteristics, a contribution owed to the University of California Retirement Plan and accrued interest, at June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	2005		2004		2005		2004	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Self insurance programs	$ 158,512	$403,315	$ 158,359	$408,603				
Obligations under life income agreements	674	$ 20,124	653	$ 20,119	$ 20,593	$141,752	$19,088	$134,687
Other liabilities:								
Compensated absences	327,481	$ 185,965	301,719	179,551				
Retirement plan	4,753	74,015	4,394	78,768				
Accrued interest	65,465		59,545					
Other	202,289	74,548	197,805	38,247	321	$ 10,224	$ 1,523	$ 13,105
Total	**$759,174**	**$334,528**	**$722,475**	**$296,566**	**$20,914**	**$ 10,224**	**$20,611**	**$ 13,105**

Self-Insurance Programs

The University is self-insured for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments.

Changes in self-insurance liabilities for years ended June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	GENERAL LIABILITY	TOTAL
Year Ended June 30, 2005					
Liabilities at June 30, 2004	$158,958	$353,151	$13,659	$41,194	$566,962
Claims incurred and changes in estimates	40,718	68,793	124,593	16,160	250,264
Claim payments	(45,319)	(72,866)	(122,074)	(15,140)	(255,399)
Liabilities at June 30, 2005	**$154,357**	**$349,078**	**$16,178**	**$42,214**	**$561,827**
Discount rate	**6.0%**	**5.5%**	**Undiscounted**	**4.0%**	
Year Ended June 30, 2004					
Liabilities at June 30, 2003	$168,818	$278,392	$17,976	$54,991	$520,177
Claims incurred and changes in estimates	26,342	155,092	103,165	4,648	289,247
Claim payments	(36,202)	(80,333)	(107,482)	(18,445)	(242,462)
Liabilities at June 30, 2004	**$158,958**	**$353,151**	**$13,659**	**$41,194**	**$566,962**
Discount rate	**6.5%**	**5.0%**	**Undiscounted**	**4.5%**	

The increase in the estimated liabilities at June 30, 2005 resulting from reduction in the discount rates from those used at June 30, 2004 was $1.8 million for medical malpractice claims and $400 thousand for general liability claims. The decrease in the estimated liability at June 30, 2005, resulting from the increase in the discount rate from that used at June 30, 2004, was $5.6 million for workers' compensation claims.

Obligations Under Life Income Agreements

Obligations under life income agreements represent trusts with living income beneficiaries where the University has a residual interest. The investments associated with these agreements are recorded at their fair value. The discounted present value of any income beneficiary interest is reported as a liability in the statement of net assets based upon actuarial tables established by the Internal Revenue Service. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains and losses are included in other nonoperating income (expense) in the statement of revenues, expenses and changes in net assets. Resources that are expendable upon maturity are classified as restricted, expendable net assets; all others are classified as restricted, nonexpendable net assets.

Changes in current and noncurrent obligations under life income agreements for the years ended June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	ANNUITIES	LIFE BENEFICIARIES	ANNUITIES	LIFE BENEFICIARIES
Year Ended June 30, 2005				
Current portion at June 30, 2004	$ 223	$ 430	$ 7,629	$ 11,459
Reclassification from noncurrent	1,284	2,055	6,654	14,264
Payments to beneficiaries	(1,248)	(2,070)	(7,538)	(11,875)
Current portion at June 30, 2005	**$ 259**	**$ 415**	**$ 6,745**	**$ 13,848**
Noncurrent portion at June 30, 2004	$ 7,542	$12,577	$ 41,719	$ 92,968
New obligations to beneficiaries	1,138	2,206	3,096	24,887
Reclassification to current	(1,284)	(2,055)	(6,654)	(14,264)
Noncurrent portion at June 30, 2005	**$ 7,396**	**$12,728**	**$38,161**	**$103,591**
Year Ended June 30, 2004				
Current portion at June 30, 2003	$ 434	$ 382	$ 7,791	$ 9,360
Reclassification from noncurrent	857	1,424	7,700	11,640
Payments to beneficiaries	(1,068)	(1,376)	(7,862)	(9,541)
Current portion at June 30, 2004	**$ 223**	**$ 430**	**$ 7,629**	**$ 11,459**
Noncurrent portion at June 30, 2003	$ 7,160	$12,178	$39,393	$ 85,399
New obligations to beneficiaries	1,239	1,823	10,026	19,209
Reclassification to current	(857)	(1,424)	(7,700)	(11,640)
Noncurrent portion at June 30, 2004	**$ 7,542**	**$12,577**	**$ 41,719**	**$ 92,968**

Other Noncurrent Liabilities

Changes in other noncurrent liabilities for the years ended June 30, 2005 and 2004 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA
	COMPENSATED ABSENCES	RETIREMENT PLAN	OTHER	TOTAL	CAMPUS FOUNDATIONS
Year Ended June 30, 2005					
Liabilities at June 30, 2004	$ 179,551	$ 78,768	$38,247	$ 296,566	$ 13,105
New obligations	209,759		42,962	252,721	7,219
Reclassification to current	(203,345)	(4,753)	(6,661)	(214,759)	(10,100)
Liabilities at June 30, 2005	**$ 185,965**	**$ 74,015**	**$74,548**	**$ 334,528**	**$ 10,224**
Year Ended June 30, 2004					
Liabilities at June 30, 2003	$ 176,581	$ 83,162	$38,743	$ 298,486	$ 11,309
New obligations	199,624		4,970	204,594	5,041
Reclassification to current	(196,654)	(4,394)	(5,466)	(206,514)	(3,245)
Liabilities at June 30, 2004	**$ 179,551**	**$ 78,768**	**$ 38,247**	**$ 296,566**	**$ 13,105**

Payments are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises, endowment income or other revenue sources that support the employee's salary.

10. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment through the issuance of debt obligations or indirectly through structures that involve a separate limited liability corporation (LLC). Commercial paper provides for interim financing. Long-term financing includes revenue bonds, certificates of participation, capital lease obligations and other borrowings.

The University's outstanding debt at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	WEIGHTED AVERAGE INTEREST RATE	INTEREST RATE RANGE	MATURITY YEARS	2005	2004
INTERIM FINANCING:					
Commercial paper		2.0–3.3%	2005	$ 550,000	$ 550,000
LONG-TERM FINANCING:					
University of California General Revenue Bonds	4.9%	3.0–5.3%	2006–2037	1,517,450	1,279,620
University of California Limited Project Revenue Bonds	4.8%	2.3–5.0%	2008–2037	371,590	
University of California Multiple Purpose Projects Revenue Bonds	5.1%	3.0–9.3%	2005–2034	1,980,630	2,018,195
University of California Hospital Revenue Bonds	4.4%	2.0–10.0%	2005–2039	801,585	815,870
University of California Research Facilities Revenue Bonds	5.0%	3.8–5.0%	2005–2031	254,270	257,770
Adjusted by: Unamortized deferred financing costs				(45,586)	(49,602)
Unamortized bond premium				74,901	66,461
University of California revenue bonds	**4.9%**			**4,954,840**	**4,388,314**
Certificates of participation	5.2%	4.0–5.6%	2005–2032	135,220	142,140
Capital lease obligations		2.3–11.8%	2005–2030	1,883,428	1,287,012
Other University borrowings		Various	2005–2012	310,787	545,523
Student housing LLC revenue bonds	5.6%	5.5–5.8%	2007–2038	111,010	
Total outstanding debt				**7,945,285**	**6,912,989**
Less: Commercial paper				(550,000)	(550,000)
Current portion of outstanding debt				(450,013)	(587,354)
Noncurrent portion of outstanding debt				**$6,945,272**	**$5,775,635**

Total interest expense during the years ended June 30, 2005 and 2004 was $324.9 million and $291.8 million, respectively. Interest expense of $29.6 million and $23.8 million associated with financing projects during the construction phase was capitalized during the years ended June 30, 2005 and 2004, respectively. The remaining $295.3 million in 2005 and $268.0 million in 2004 are reported as interest expense in the statement of revenues, expenses and changes in net assets.

Outstanding Debt Activity

The activity with respect to the University's current and noncurrent debt, including the revenue bonds associated with the student housing LLC, for the years ended June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	UNIVERSITY REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASE OBLIGATIONS	STUDENT HOUSING LLC REVENUE BONDS	OTHER UNIVERSITY BORROWINGS	TOTAL
Year Ended June 30, 2005						
Current portion at June 30, 2004	$ 101,919	$ 6,920	$ 92,729		$ 385,786	$ 587,354
Reclassification from noncurrent	122,293	7,270	116,476	22	352,551	598,612
Refinancing or prepayment of outstanding debt			(9,532)		(500,313)	(509,845)
Scheduled principal payments	(100,950)	(6,920)	(95,849)		(21,398)	(225,117)
Amortization of bond premium	(4,985)			(22)		(5,007)
Amortization of deferred financing costs	4,016					4,016
Current portion at June 30, 2005	**$ 122,293**	**$ 7,270**	**$ 103,824**		**$ 216,626**	**$ 450,013**
Noncurrent portion at June 30, 2004	$ 4,286,395	$ 135,220	$ 1,194,283		$ 159,737	$ 5,775,635
New obligations	655,020		701,797	$ 109,780	286,975	1,753,572
Bond premium	13,425			1,252		14,677
Reclassification to current	(122,293)	(7,270)	(116,476)	(22)	(352,551)	(598,612)
Noncurrent portion at June 30, 2005	**$ 4,832,547**	**$ 127,950**	**$ 1,779,604**	**$ 111,010**	**$ 94,161**	**$ 6,945,272**
Year Ended June 30, 2004						
Current portion at June 30, 2003	$ 95,512	$ 11,975	$ 82,717		$ 119,294	$ 309,498
Reclassification from noncurrent	1,244,415	170,840	99,057		341,204	1,855,516
Refinancing or prepayment of outstanding debt	(1,130,150)	(169,220)	(939)		(56,357)	(1,356,666)
Scheduled principal payments	(108,675)	(6,675)	(88,106)		(18,355)	(221,811)
Amortization of bond premium	(2,200)					(2,200)
Amortization of deferred financing costs	3,017					3,017
Current portion at June 30, 2004	**$ 101,919**	**$ 6,920**	**$ 92,729**		**$ 385,786**	**$ 587,354**
Noncurrent portion at June 30, 2003	$ 3,923,989	$ 306,060	$ 1,216,842		$ 47,804	$ 5,494,695
New obligations	1,556,270		76,498		453,137	2,085,905
Bond premium	68,661					68,661
Deferred financing costs	(18,110)					(18,110)
Reclassification to current	(1,244,415)	(170,840)	(99,057)		(341,204)	(1,855,516)
Noncurrent portion at June 30, 2004	**$ 4,286,395**	**$ 135,220**	**$ 1,194,283**		**$ 159,737**	**$ 5,775,635**

Commercial Paper

The University has available a $550.0 million commercial paper program with tax-exempt and taxable components. The program's liquidity is supported by the legally available unrestricted investments in the STIP. Commercial paper is collateralized by a pledge of the net revenues generated by the enterprise financed, not by any encumbrance, mortgage or other pledge of property, and does not constitute a general obligation of the University.

Commercial paper outstanding, including interest rates, at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	2005		2004	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING
Tax-exempt	2.0–2.9%	$430,000	0.9–1.1%	$ 430,000
Taxable	2.9–3.3%	120,000	1.0–1.3%	120,000
Total outstanding		**$ 550,000**		**$ 550,000**

University of California Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of the University. They generally have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue bond indentures require the University to use the facilities in a way which will not cause the interest on the bonds to be included in the gross income of the holders of the bonds for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of the University consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond indenture requires the University to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General Revenues for the years ended June 30, 2005 and 2004 were $5.24 billion and $4.80 billion, respectively.

In August 2004, The Regents authorized the University to issue Limited Project Revenue Bonds for auxiliary enterprises collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. The indenture requires the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants.

Multiple Purpose Projects Revenue Bonds are collateralized by a pledge of the net revenues generated by the enterprises. The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues after expenses and requirements for senior lien indentures equal to 1.25 times debt service and maintain certain other financial covenants.

Hospital Revenue Bonds have financed certain of the University's five medical centers and are collateralized by a pledge of the specific gross revenues associated with each medical center. Hospital gross revenues are excluded from General Revenues. The Hospital Revenue Bond indentures require each medical center to achieve debt service coverage of 1.1 times to 1.2 times (depending on the indenture), set limitations on encumbrances, indebtedness, disposition of assets and transfer services and maintain certain other financial covenants.

Research Facilities Revenue Bonds are collateralized by a pledge of the University's share of facilities and administrative recoveries received on federal research grants and contracts. The Research Facilities Revenue Bond indentures require the University to achieve debt service coverage of 1.25 times and maintain certain other financial covenants.

Generally, in accordance with the terms of the indentures, the pledge of General Revenues under General Revenue Bonds are subordinate to the pledge of the University's share of facilities and administrative cost recoveries received on federal research grants and contracts under Research Facilities Revenue Bonds. The pledge of revenues under Limited Project Revenue Bonds are subordinate to the pledge of revenues associated with projects financed with General Revenue Bonds, but senior to pledges under Multiple Purpose Projects Revenue Bonds, commercial paper agreements or bank loans. The pledge of net revenues associated with projects financed with Multiple Purpose Projects Revenue Bonds is subordinate to General Revenue Bonds and Limited Project Revenue Bonds, but senior to pledges under commercial paper agreements or bank loans. All indentures permit the University to issue additional bonds as long as certain conditions are met.

2005 *Activity*

In September 2004, Limited Project Revenue Bonds totaling $371.6 million were issued to finance and refinance certain auxiliary enterprises of the University. Proceeds include a bond premium of $7.7 million and are available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans totaling $307.4 million. The bonds mature at various dates through 2037 and have a weighted average interest rate of 4.8 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In January 2005, General Revenue Bonds totaling $283.4 million were issued to finance and refinance certain facilities of the University. Proceeds included a bond premium of $5.8 million and were available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $218.4 million. The bonds mature at various dates through 2037 and have a weighted average interest rate of 4.3 percent. The deferred premium of $5.8 million will be amortized as a reduction to interest expense over the term of the bonds.

Subsequent Events

In July 2005, General Revenue Bonds totaling $558.4 million were issued to refinance certain facilities and projects of the University. Proceeds, including a bond premium of $33.1 million, together with certain University funds, were used to refund $439.2 million of outstanding Multiple Purpose Projects Revenue Bonds, $42.7 million of Research Facilities Revenue Bonds and $80.7 million of certificates of participation. The bonds mature at various dates through 2035 and have a weighted average interest rate of 4.8 percent. The deferred premium of $33.1 million will be amortized as a reduction to interest expense over the term of the bonds. Aggregate debt service payments were decreased by $6.8 million over the term of the bonds and the University was able to obtain an economic gain of $25.8 million.

In October 2005, General Revenue Bonds totaling $352.8 million were sold to finance certain facilities of the University. Proceeds include a bond premium of $6.6 million and are available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds. The bonds mature at various dates through 2039 and have a weighted average interest rate of 4.8 percent.

Also in October 2005, the University is proceeding with an offering statement for the sale of Limited Project Revenue Bonds totaling $618.1 million to finance and refinance certain auxiliary enterprises of the University. Proceeds would be available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds.

2004 Activity

In September 2003, General Revenue Bonds totaling $914.3 million were issued to finance and refinance certain facilities of the University. Proceeds included a bond premium of $35.8 million and were available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $67.6 million. Proceeds were also used to refund $409.1 million of outstanding Multiple Purpose Projects Revenue Bonds, $179.5 million of Housing System Revenue Bonds, $34.1 million of Research Facilities Revenue Bonds and $163.9 million of certificates of participation. The bonds mature at various dates through 2036 and have a weighted average interest rate of 5.0 percent. The refunding resulted in deferred financing costs of $14.9 million that will be amortized as interest expense over the remaining life of the refunded bonds. The deferred premium of $35.8 million will be amortized as a reduction to interest expense over the term of the bonds. Aggregate debt service payments were increased by $74.1 million over the term of the bonds due to the extension of maturities for certain projects and the University was able to obtain an economic gain of $21.5 million.

In November 2003, General Revenue Bonds totaling $385.8 million were issued to refinance certain facilities of the University. Proceeds, including a bond premium of $20.1 million, together with certain University funds, were used to refund $407.8 million of outstanding Multiple Purpose Projects Revenue Bonds. The bonds mature at various dates through 2028 and have a weighted average interest rate of 4.9 percent. The refunding resulted in deferred financing costs of $8.2 million that will be amortized as interest expense over the remaining life of the refunded bonds. The deferred premium of $20.1 million will be amortized as a reduction to interest expense over the term of the bonds. Aggregate debt service payments were decreased by $51.0 million over the term of the bonds and the University was able to obtain an economic gain of $18.6 million.

In May 2004, Hospital Revenue Bonds, totaling $256.2 million were issued to finance a portion of the costs of constructing replacement hospital facilities for UCLA Medical Center–Westwood and Santa Monica–UCLA Medical Center and to refinance certain other health care facilities of UCLA Medical Center. Proceeds were available for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds. Proceeds were also used to refund $98.3 million of outstanding Hospital Revenue Bonds and extinguish $28.0 million of outstanding bank loans. The bonds mature at various dates through 2039 and have a weighted average interest rate of 5.3 percent. The refunding resulted in deferred financing costs of $2.0 million that will be amortized as interest expense over the remaining life of the refunded bonds. The deferred premium of $12.7 million will be amortized as a reduction to interest expense over the term of the bonds. Aggregate debt service payments were increased by $3.2 million over the term of the bonds due to the extension of maturities for certain projects and the University was able to obtain an economic gain of $4.6 million.

Interest Rate Swap Agreements

As a means to lower the University's borrowing costs, when compared against fixed-rate bonds at the time of issuance in 2003, the University entered into interest rate swaps with three financial institutions in connection with its $347.8 million variable-rate Refunding Hospital Revenue Bonds (Series A–E) associated with the UC Davis Medical Center. The intention of the swap transaction was to effectively change the variable interest rate on the bonds to a fixed rate of 3.1 percent.

The bonds and the related swap agreements mature on September 1, 2026 and the aggregate notional amount of swaps matches the outstanding amounts on the bonds throughout the entire term of the bonds. Under the swaps, the University pays the swap counterparties a fixed payment of 3.1385 percent and receives a variable payment computed as 67 percent of 30 day London Interbank Offered Rate (LIBOR). The University believes that over time the variable interest rates it pays on the bonds will approximate the variable payments it receives on the interest rate swaps, leaving the fixed interest rate payment on the swaps as the net payment obligation for the transaction.

Because swap rates have decreased since execution of the swaps, the swaps have an estimated negative fair value of $5.5 million as of June 30, 2005. The fair value is an indication of the difference in value of the swap fixed interest payments due on the swap and swap fixed rate payments due on a swap with identical terms executed on June 30, 2005. The fair value of the interest rate swap is the estimated amount the University would have paid if the swap agreement were terminated on June 30, 2005. The fair value was estimated by the financial institutions using quoted market prices when available or a forecast of expected discounted future net cash flows.

The swap exposes the University to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swaps is taxable (67 percent of 30 day LIBOR). Tax-exempt interest rates can change without a corresponding change in the 30 day LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market. For example, the swap exposes the University to risk if reductions in the federal personal income tax cause the relationship between the variable interest rate on the bonds to be greater than 67 percent of 30 day LIBOR.

Although the University has entered into the interest rate swaps with credit worthy financial institutions, there is exposure to losses in the event of non-performance by counterparties or unfavorable interest rate movements. The swap may be terminated if the insurer's credit quality rating falls below A– as issued by Fitch Ratings or Standard & Poor's, thereby canceling the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. At termination, the University may also owe a termination payment if there is a realized loss based on the fair value of the swap.

Interest payments on the bonds are reset weekly for Series B–D and daily for Series A and E. As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the University of the future interest cost of the variable rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2005, debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

	VARIABLE-RATE BONDS		INTEREST RATE	TOTAL
	PRINCIPAL	INTEREST	SWAP, NET	PAYMENTS
Year Ending June 30				
2006	$ 3,275	$ 6,695	$ 3,917	$ 13,887
2007	3,375	6,629	3,879	13,883
2008	11,950	6,436	3,766	22,152
2009	12,375	6,195	3,625	22,195
2010	12,800	5,945	3,479	22,224
2011-2015	70,875	25,671	15,021	111,567
2016-2020	83,975	18,011	10,539	112,525
2021-2025	99,500	8,935	5,228	113,663
2026-2027	44,750	667	391	45,808
Total	$342,875	$85,184	$49,845	$477,904

Certificates of Participation

Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are collateralized by buildings and equipment. A portion of the rental payments is provided to the University by a state of California financing appropriation of $4.8 million and $4.9 million for the years ended June 30, 2005 and 2004, respectively. All rental payments, including those from any lawfully available cash of The Regents, have been pledged and assigned to a trustee by the lessor.

Capital Leases

The University has entered into lease-purchase agreements with the state of California that are recorded as capital leases. The state sells lease revenue bonds to finance construction of certain state-owned buildings to be used by the University. During the construction phase, the University acts as agent for the state. Bond proceeds remain on deposit with the state, as trustee, until the University is reimbursed as the project is constructed.

Upon completion, the buildings and equipment are leased to the University under terms and amounts that are sufficient to satisfy the state's lease revenue bond requirements with the understanding that the state will provide financing appropriations to the University to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to the University.

In December 2004, April 2005 and June 2005, the University entered into lease-purchase agreements totaling $627.1 million with the state to finance the construction of various University projects.

The state of California financing appropriation to the University under the terms of the lease-purchase agreements, recorded as nonoperating revenue in the statement of revenues, expenses and changes in net assets, for the years ended June 30, 2005 and 2004 was $115.9 million and $111.0 million, respectively. The principal and interest, including accrued interest, reported in the University's financial statements for the years ended June 30, 2005 and 2004 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)

	2005	2004
Capital lease principal	$ 56,058	$ 53,265
Capital lease interest	71,599	63,837
Total	$127,657	$117,102

Capital leases entered into with other lessors, primarily for equipment, totaled $74.7 million and $76.5 million for the years ended June 30, 2005 and 2004, respectively.

Other University Borrowings

Other University borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities.

The University may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper and to provide interim financing for buildings and equipment. Line of credit commitments, with various expiration dates through December 2008, totaled $1.39 billion at June 30, 2005. Outstanding borrowing under these bank lines totaled $134.8 million and $188.8 million at June 30, 2005 and 2004, respectively.

The state of California may provide interim loans to the University for certain facilities to be financed through their future issuance of lease revenue bonds. The interim loans are repaid from the bond proceeds. Outstanding interim loans from the state, classified in the current portion of long-term debt in the University's statement of net assets, totaled $130.1 million and $302.6 million at June 30, 2005 and 2004, respectively.

Student Housing LLC Revenue Bonds

The University has entered into a ground lease with a legally separate, non-profit corporation that is developing and will own a student housing project on a University campus through the use of a single-project limited liability corporation. The LLC will manage the premises. The University's reversionary interest in the land is not subordinated. All costs associated with the construction, ownership, operation and management of the improvements are the obligation of the Ground Lessee. Student rental rates are established in order to provide for operating expenses and maintain the required debt service coverage ratios. The University is not responsible for any payments related to the ownership, operation or financing of the student housing. However, under GASB requirements, the financial position and operating results of these legally separate organizations are incorporated into the University's financial reporting entity.

In December 2004, the LLC, through its conduit issuer, issued Student Housing Revenue Bonds totaling $109.8 million to finance the construction of a student housing facility. Proceeds include a bond premium of $1.3 million. They generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. The bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing project, and do not constitute general obligations of The Regents. The bonds mature at various dates through 2038 and have a weighted average interest rate of 5.6 percent.

Interest expense, net of interest income, totaling $2.2 million related to the student housing LLC revenue bonds, was capitalized during the construction phase of the project. None of the interest expense is reported in the statement of revenues, expenses and changes in net assets. There were no principal payments during the year ended June 30, 2005 as the project is under construction.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2005 and thereafter are as follows:

(in thousands of dollars)

	COMMERCIAL PAPER	UNIVERSITY REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASES STATE	CAPITAL LEASES OTHER	OTHER UNIVERSITY BORROWINGS	STUDENT HOUSING LLC REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year Ending June 30										
2006	$551,034	$ 359,522	$ 14,036	$ 148,674	$ 42,537	$ 219,914	$ 6,187	$ 1,341,904	$ 998,570	$ 343,334
2007		362,341	14,031	153,362	35,921	69,352	6,547	641,554	311,982	329,572
2008		374,238	14,022	154,807	28,030	18,821	6,567	596,485	278,872	317,613
2009		376,472	14,087	168,629	17,287	4,707	6,805	587,987	282,864	305,123
2010		403,627	14,142	148,533	7,715	2,764	7,008	583,789	291,509	292,280
2011 - 2015		1,853,729	41,790	742,385	20,120	1,360	37,919	2,697,303	1,434,701	1,262,602
2016 - 2020		1,624,504	35,458	589,985	8,916		38,972	2,297,835	1,385,723	912,112
2021 - 2025		1,342,901	34,356	401,019	3,660		38,970	1,820,906	1,245,835	575,071
2026 - 2030		971,903	34,179	224,044	1,749		38,970	1,270,845	962,604	308,241
2031 - 2035		643,331	5,813				38,968	688,112	576,025	112,087
2036 - 2040		136,000					23,383	159,383	146,055	13,328
Total future debt service	551,034	8,448,568	221,914	2,731,438	165,935	316,918	250,296	12,686,103	$7,914,740	$4,771,363
Less: Interest component of future payments	(1,034)	(3,523,043)	(86,694)	(999,287)	(14,658)	(6,131)	(140,516)	(4,771,363)		
Principal portion of future payments	550,000	4,925,525	135,220	1,732,151	151,277	310,787	109,780	7,914,740		
Adjusted by:										
Unamortized deferred financing costs		(45,586)						(45,586)		
Unamortized bond premium		74,901					1,230	76,131		
Total debt	$550,000	$ 4,954,840	$135,220	$1,732,151	$151,277	$310,787	$ 111,010	$ 7,945,285		

Long-term debt does not include $305.6 million and $306.3 million of defeased liabilities at June 30, 2005 and 2004, respectively. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the University's statement of net assets.

11. OTHER POST EMPLOYMENT BENEFITS

Employees who meet specific requirements may continue their medical and dental benefits into retirement and receive University contributions for those benefits. There were approximately 39,600 retirees eligible to receive such benefits at June 30, 2005 and 38,200 retirees at June 30, 2004. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors was $193.0 million and $185.1 million for the years ended June 30, 2005 and 2004, respectively.

12. ENDOWMENTS AND GIFTS

Endowments and gifts are held and administered either by the University or by campus foundations.

University of California

The value of endowments and gifts held and administered by the University at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2005				
Endowments	$794,173	$1,381,472	$ 29,100	$2,204,745
Funds functioning as endowments		1,777,878	1,055,491	2,833,369
Annuity and life income	29,324	8,092		37,416
Gifts		679,497	18,350	697,847
University endowments and gifts	$823,497	$3,846,939	$1,102,941	$5,773,377
At June 30, 2004				
Endowments	$747,370	$1,262,601	$ 27,333	$2,037,304
Funds functioning as endowments		1,650,488	989,141	2,639,629
Annuity and life income	28,391	8,061		36,452
Gifts		624,042	20,006	644,048
University endowments and gifts	$775,761	$3,545,192	$1,036,480	$5,357,433

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs, subject to the approval of The Regents, amounted to $1.38 billion and $1.29 billion at June 30, 2005 and 2004, respectively.

The portion of investment returns earned on endowments held by the University and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to the campuses from endowments held by the University was $187.1 million and $182.0 million for the years ended June 30, 2005 and 2004, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned during the year, was $71.2 million and $76.3 million for the years ended June 30, 2005 and 2004, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was $489.4 million and $471.0 million at June 30, 2005 and 2004, respectively.

Campus Foundations

The value of endowments and gifts held by the campus foundations and administered by each of their independent Board of Trustees at June 30, 2005 and 2004 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2005				
Endowments	$1,248,942	$ 522,933		$1,771,875
Funds functioning as endowments		596,407		596,407
Annuity and life income	111,296	88,643		199,939
Gifts		665,378	$16,343	681,721
Campus foundations' endowments and gifts	**$1,360,238**	**$1,873,361**	**$16,343**	**$3,249,942**
At June 30, 2004				
Endowments	$1,129,101	$ 422,330		$1,551,431
Funds functioning as endowments		550,423		550,423
Annuity and life income	97,265	67,991		165,256
Gifts		654,763	$ 8,479	663,242
Campus foundations' endowments and gifts	**$1,226,366**	**$1,695,507**	**$ 8,479**	**$2,930,352**

The campus foundations provided grants to the University's campuses totaling $343.4 million and $390.3 million, respectively, during the years ended June 30, 2005 and 2004.

13. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most University employees participate in the UCRS. The UCRS consists of the University of California Retirement Plan, a single employer, defined benefit plan funded with University and employee contributions; the University of California Retirement Savings Program that includes three defined contribution plans with options to participate in internally and externally managed investment portfolios funded with employee non-elective and elective contributions; and the Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS-VERIP), a defined benefit plan for University employees who elected early retirement.

University of California Retirement Plan

The University of California Retirement Plan (UCRP) provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees of the University of California and its affiliates. Membership in the retirement plan is required for all employees appointed to work at least 50 percent time for a year or more. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined by salary rate, age and years of service credit with certain cost of living adjustments. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a 36-month period.

Members' contributions to UCRP are accounted for separately and accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect a lump sum equal to the present value of their accrued benefits. Both actions thereby forfeit the member's rights to further accrued benefits.

At June 30, 2005, plan membership totaled 188,790, comprised of 124,642 active members, 22,671 inactive members who are terminated vested employees entitled to benefits, but not yet receiving them and 41,477 retirees and beneficiaries currently receiving benefits. The active members include 71,367 current employees who are fully vested. The active members also include 53,275 nonvested current employees covered by the plan. A total of 24,452 terminated nonvested employees are not members of the plan, but are eligible for a refund.

The Regents' funding policy provides for actuarially determined contributions at rates that provide for sufficient assets to be available when benefits are due. The contribution rate is determined using the entry age normal actuarial funding method. The significant actuarial assumptions used to compute the actuarially determined contribution are the same as those used to compute the actuarial accrued liability.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and appropriations received from the state of California.

Employee contributions may be required to be made to the UCRP. The rate of employee contributions is established annually pursuant to The Regents' funding policy, as a percentage of covered wages, recommended and certified by an enrolled, independent actuary and approved by The Regents, the plan's trustee. During the years ended June 30, 2005 and 2004, employee contributions to the UCRP were redirected to the University of California Defined Contribution Plan.

For the years ended June 30, 2005 and 2004, there were no employer contributions, annual pension costs, or net pension obligations. The annual pension cost was equal to the actuarially determined contributions.

The annual required contribution for the current year was determined as part of the June 30, 2005 actuarial valuation, which is the latest available information, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation were:

- assumed return on investment of 7.5 percent per year;
- projected salary increases ranging from 4.5–6.5 percent per year;
- projected inflation at 4 percent;
- future life expectancy based upon recent group annuitant experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of investments over a five-year period. The actuarial value of assets in excess of the actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005 was 3 years.

The supplemental schedule of funding progress is as follows:

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	EXCESS	FUNDED RATIO	ANNUAL COVERED PAYROLL	EXCESS/COVERED PAYROLL
June 30, 2005	$41,085,000	$37,252,000	$3,833,000	110.3 %	$8,150,000	47.0 %
June 30, 2004	41,293,000	35,034,000	6,259,000	117.9	7,835,000	79.9
June 30, 2003	41,429,000	32,955,000	8,474,000	125.7	7,734,000	109.6

University of California Retirement Savings Program

The University of California Retirement Savings Program includes three defined contribution plans providing savings incentives and additional retirement security that are generally available to all University employees. Participants' interests in the plans are fully and immediately vested and are distributable at death, retirement or termination of employment. Participants may also elect to defer distribution of the account until age 70 ½ or separation from service after age 70 ½, whichever is later, in accordance with Internal Revenue Code minimum distribution requirements. The Plans also accept pretax rollover contributions from other 401(a), 401(k), 403(b) and governmental 457(b) Plans.

Defined Contribution Plan

The Defined Contribution Plan (the DC Plan) accepts both after-tax and pretax contributions. Pretax contributions are fully vested and are mandatory for all employees who are members of the UCRP. Monthly employee contributions range from approximately 2.0 percent to 4.0 percent of covered wages depending upon whether wages are below or above the Social Security wage base.

The University has a provision for matching employer and employee contributions to the DC Plan for certain summer session teaching or research compensation for eligible academic employees. Employer contributions to the DC Plan were $3.5 million and $3.8 million for the years ended June 30, 2005 and 2004, respectively.

Tax Deferred 403(b) Plan

The University's Tax Deferred 403(b) Plan (the 403(b) Plan) accepts pretax contributions. There are no employer contributions to the 403(b) Plan.